

2015

Annual Report



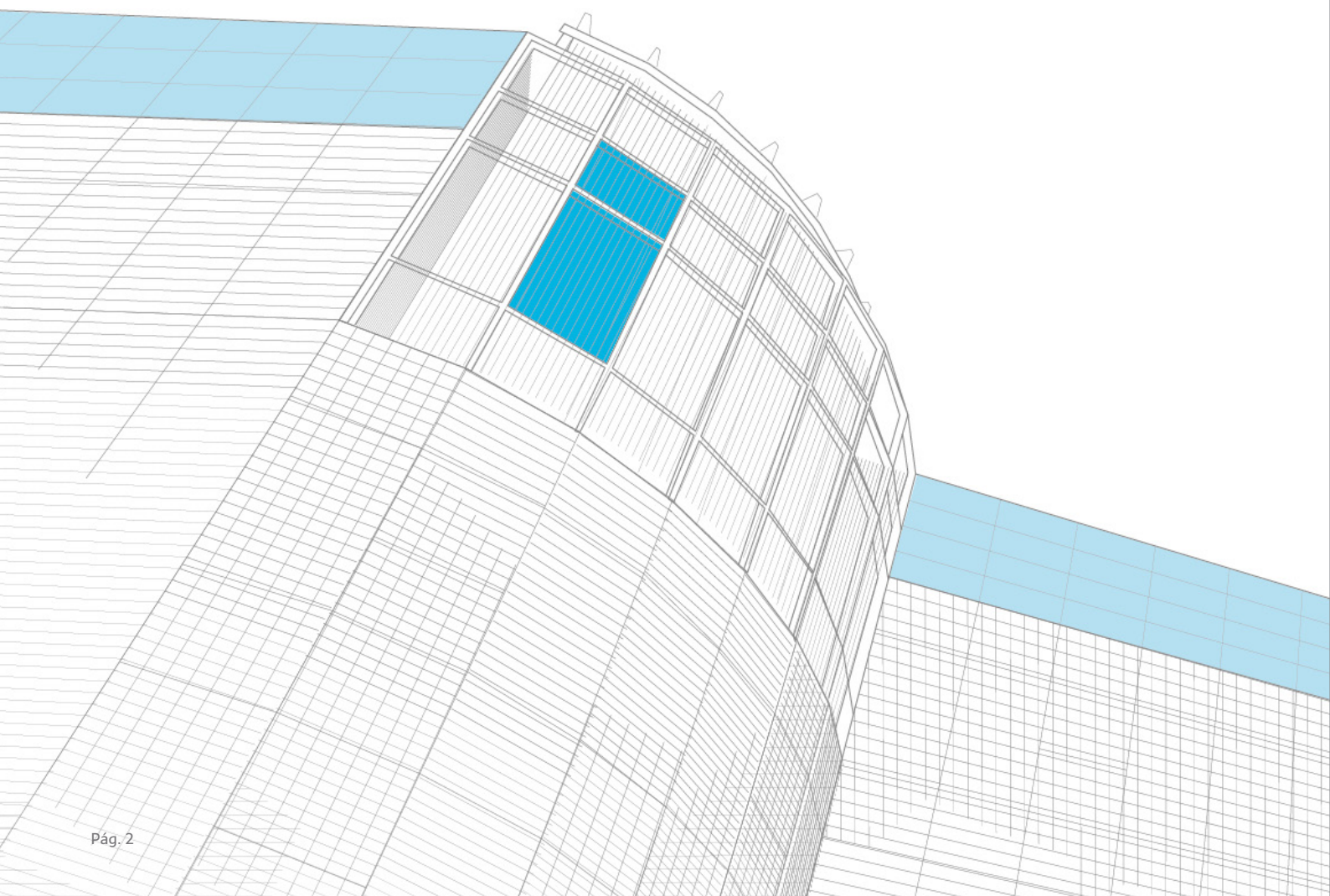
2015 Annual Report

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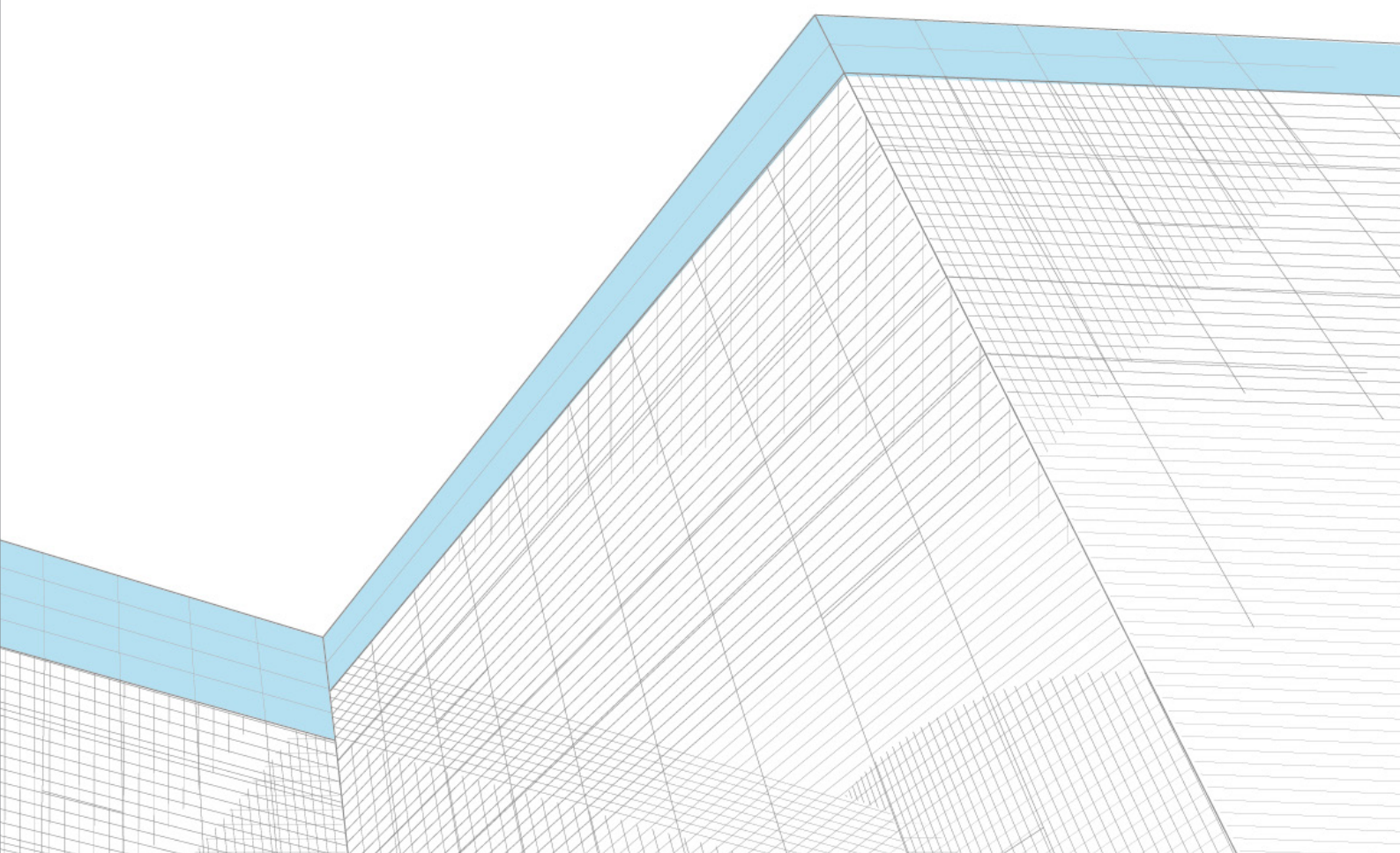
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Our identity

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4. **Corporate culture** | Vision and Values | Cecabank's team

We build lasting relationships with our clients, thanks to the values which underpin our management style and our culture.





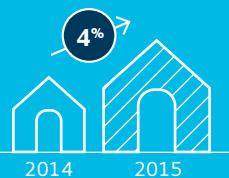
Cecabank's main figures

December 2015

Total equity

970,935

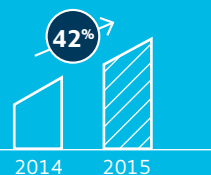
thousand euros



Profit

77,162

thousand euros



CET 1

25,33%



Eurozone average: September 2015

Cecabank in figures

December 2015

Income Statement

Net interest income

46,796 thousand euros

Gross income

278,721 thousand euros

Net operating income

100,488 thousand euros

Profit before tax

105,476 thousand euros

Profit for the year

77,162 thousand euros

Solvency and Liquidity

CET 1

25.33%

Own funds

823,454 thousand euros

Tier 1 (core capital)

818,824 thousand euros

Tier 2

4,630 thousand euros

Current ratio

283%

Balance sheet

Total assets

11,982,646 thousand euros

Financial assets held for trading

2,560,723 thousand euros

Available-for-sale financial assets

2,786,463 thousand euros

Other financial assets at fair value through profit or loss

4,202,012 thousand euros

Financial liabilities held for trading

2,273,135 thousand euros

Financial liabilities at amortized cost

7,256,944 thousand euros

Total Equity

970,935 thousand euros

Ratings

	Long term	Date
Moody's	Baa2	17/06/2015
Fitch	BBB-	04/11/2015
S&P	BBB	02/02/2016

Interview with the Chairman and the General Manager

Antonio Massanell. Chairman of Cecabank

José María Méndez Álvarez-Cedrón. General Manager of Cecabank

The art of prudence, the desire for knowledge and being open to change.

How would you describe the economic context in 2015?

A.M. The Spanish economy consolidated its recovery trend in the course of 2015 and registered growth of 3.2%. However, activity decelerated slightly at the end of the year, due to the world slowdown, the lesser impact of some favourable events – the downturn in oil prices, the tax reduction and the depreciation of the euro – and the increased uncertainty surrounding the Spanish election process.

In the financial markets, the year was marked by great volatility and the Spanish stock market was also affected by the general falls which started in the summer.

In 2015 the environment in which Spanish credit institutions operate was characterized by central banks' expansive monetary policies but with divergence between interest rates in the United States and Europe in the short and medium term.

¿Cuáles han sido los principales hitos de Cecabank en 2015?

J.M. 2015 was a very important year for the bank for three basic reasons: first, the 40% increase in assets under custody over the year, which took them up to 90,000 million euros. Moreover, in this business line, Cecabank was designated as provisional depository bank for investment funds from Banco Madrid. This served to highlight the important role the bank plays as Spain's leading independent depository.

The second important factor was the extension of our customer base. We are making progress in greater diversification of our customer portfolio, which includes credit institutions, investment service companies, insurance firms and public sector institutions.

Lastly, our business model received outside recognition. In 2015 Moody's raised our rating by four notches. In its technical note, it justified this substantial rise

on the basis of our strategic reorientation, based on providing value added services for the financial sector. It also mentioned satisfactory capitalization in relation to the risk profile and the entity's comfortable liquidity position. With this higher rating, Cecabank now has three ratings at Investment Grade levels.

How does the Board of Directors view the degree of execution of Cecabank's Strategic Plan?

A.M. The Board values Cecabank's compliance with the Strategic Plan very positively. It is at the last stage of implementation and most of the targets established have already been met: i) Its leading position in Securities Services is becoming stronger; ii) A balance between net interest income and fees and commissions is being achieved on the income statement; iii) The bank's offer and positioning in new customer segments is being consolidated.

In this sense, 2015 was a turning point for the bank and this enables us to move ahead in this new stage. Thanks to everyone's work, our traditional/core businesses are fully consolidated and now is the time to explore new areas for developing our business and, by extension, new sources of income.

What are Cecabank's plans for 2016?

J.M. We have four main goals for 2016:

- To increase the number of clients through loyalty-building and cross sales.
- To diversify clients to achieve greater penetration in new strategic segments.
- To diversify businesses and complement our current offer with new services, leveraged on our capacities and the fact that we are a wholesale bank.
- Internationalization

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4. Corporate culture | Vision and Values | Cecabank's team

Moreover, our current Strategic Plan comes to end in 2016 and, consequently, an important task this year will be to draw up the next plan. We are already working on identifying new business opportunities. The result of this analysis will be the basis for defining a new strategic plan for 2017-2020.

What are Cecabank's main challenges in the coming years?

A.M. One of the main challenges I believe we will have to face in this period is the digital revolution. Here Cecabank has a tremendous opportunity for growth, thanks to its extensive knowledge and experience as a wholesale technological service provider for financial institutions

and its proven innovation capacity, especially in payment services.

In addition, like the entire banking sector, we will also be facing the challenge of profitability, in a prolonged environment of low interest rates and market instability.

What principles guide the activity of Cecabank's employees?

J.M. We could sum up our philosophy in an ongoing demand: the need to anticipate events and continually adapt to new market needs. Our formula for meeting this need is the same one that has enabled us to come so far: being true to our principles:

The formula which has enabled us to come so far is being true to our principles: the art of prudence, the desire for knowledge and being open to change.

Antonio
Massanell Lavilla
Chairman of Cecabank

José María
Méndez Álvarez-Cedrón
General Manager of Cecabank



About Cecabank

Mission

Cecabank is a Spanish wholesale bank which aims to serve the entire spectrum of financial institutions and specializes in:

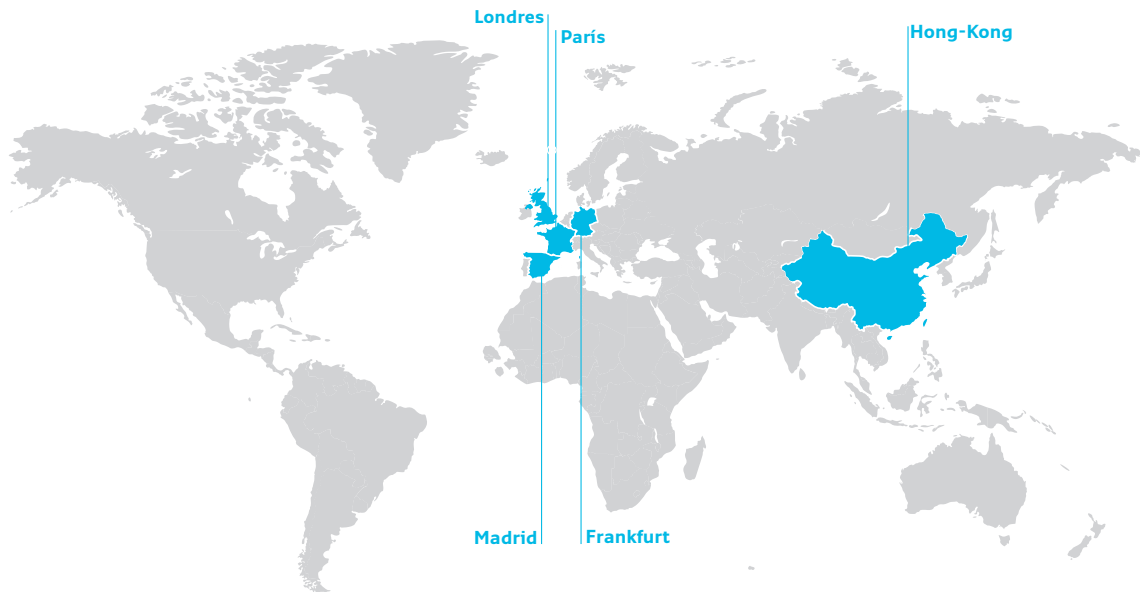
- /// Securities Services
- /// Treasury Management
- /// Banking Services

Cecabank provides financial and support services for B2B business processes, mainly Bank to Bank, and is increasingly adding corporates, insurance firms, the public sector and international banks to its clients. We have no retail business and this gives us independence and neutrality, as we do not compete with our clients.

All our services are highly specialized, after years of experience providing services for the financial community.

Cecabank's presence

Cecabank's head office is in Madrid. It has a branch in London, representative offices in Frankfurt and Paris, and a subsidiary in Hong Kong.



Head office

Madrid
Alcalá 27, 28014
Madrid. España

Branch

United Kingdom
16, Waterloo Place,
UK London SW1Y4AR

Representative offices

Germany
Schaumainkai, 69
60596 Frankfurt
am Main

France

21, Avenue Pierre 1er
de Serbie F-75116 París

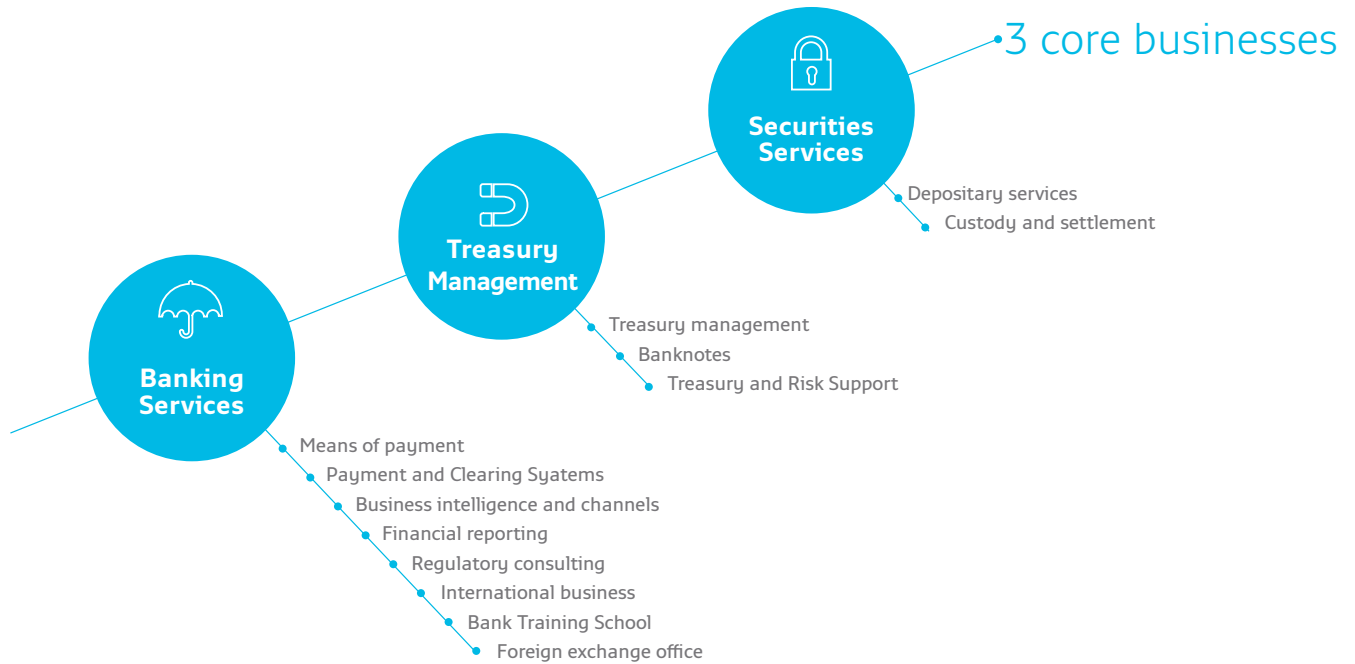
Subsidiary

Hong Kong
CEA TSL
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

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Cecabank's activity



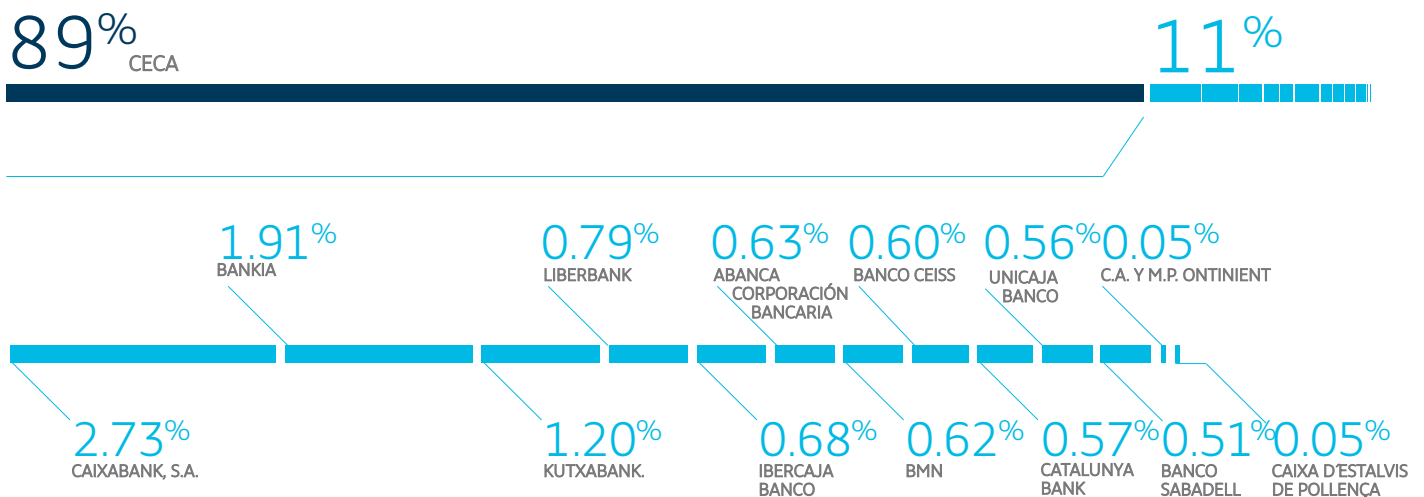
➤ You can consult detailed information about our services map in the [Business lines](#) chapter.

Shareholders

The entity's shareholders are as follows:

Total shares

112,256,540



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Ownership structure

The purpose of Cecabank's equity participations is to meet the Entity's objectives.

As of 31 December 2015, its most significant participations were:



100%

CEA TRADE SERVICE, TSL
Management of documentary credit.



100%

SERVIPAGOS S.A.
Means of payment.



75%

TRIONIS DATA
Development, management and maintenance of financial services, with special emphasis on means of payment.



22.49%

EUFISERV PAYMENTS SCRL
Means of payment.



14.44%

AHORRO CORPORACIÓN, S.A.
Financial services holding.



10.00%

EURO 6000, S.A.
Administration of debit and credit card programmes.



9.27%

SOCIEDAD ESPAÑOLA DE SISTEMAS DE PAGOS (IBERPAY)
Exchange, clearing and settlement of transfer orders.



8.85%

LICO CORPORACIÓN, S.A.
Banking services and leasing corporation.



3.33%

TEVEA INTERNATIONAL, S.A.
Support for the international business of savings banks and their clients.



1.55%

CASER, GRUPO ASEGURADOR
Insurance.



0.61%

MASTERCAJAS, S.A.
Means of payment.



0.35%

SAREB
Managing company for assets from bank restructuring.



0.068%

SWIFT
International electronic payments.

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Forums

Cecabank takes part in a large number of national and international forums, contributing to the development of the financial sector from all the areas of action where it conducts its wholesale banking business.

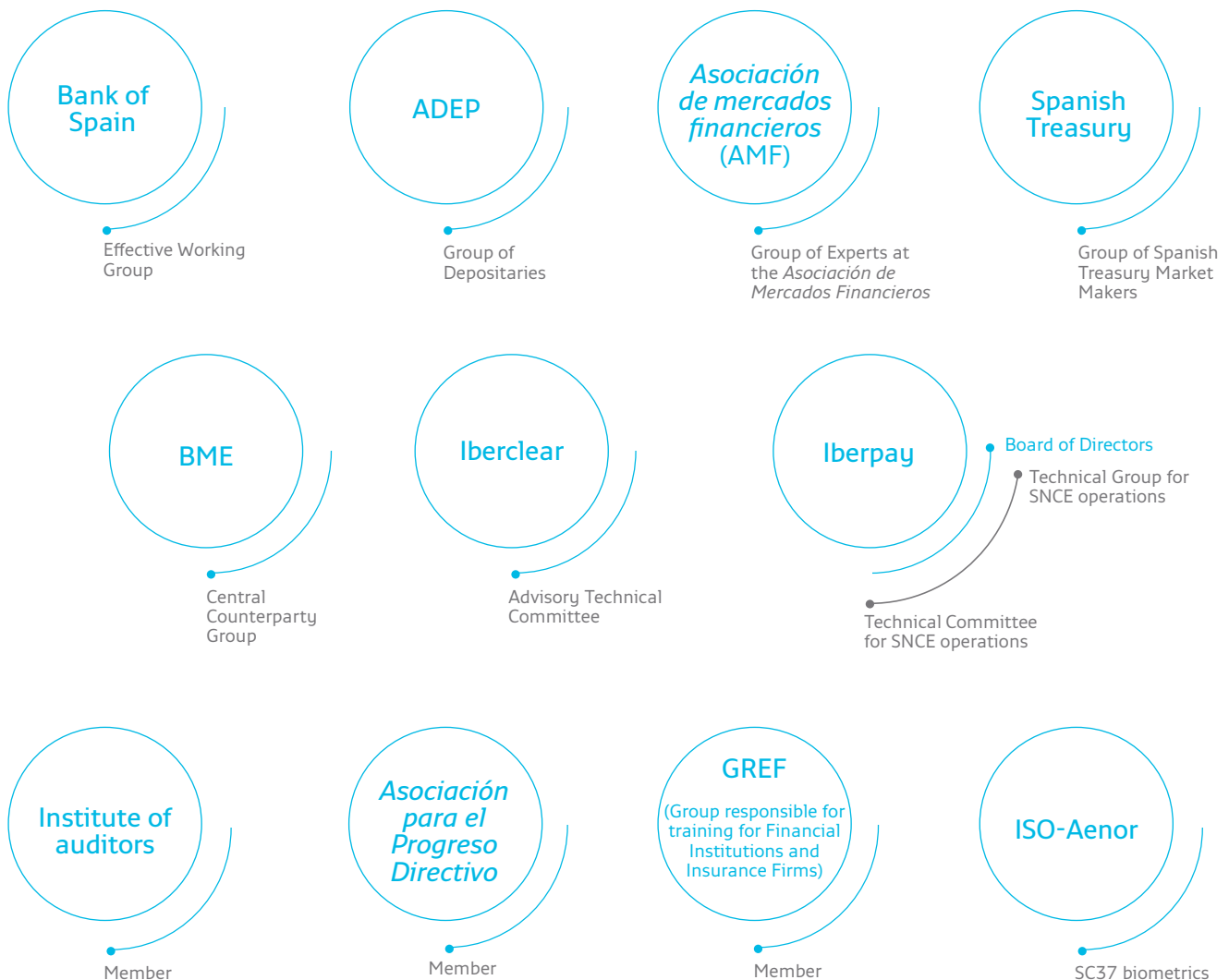
Cecabank is built around a network of experts, who place all their knowledge at our clients' service. Their recognition in the sector means that they are invited to take part in different groups of reference in the industry.

Based on its ability to change and its extensive experience, Cecabank is an entity that is open to the market and it maintains collaboration and commercial relations with

a wide range of participants. Cecabank has close contact with national and international authorities, and with sector associations and private institutions.

The establishment of the Banking Union, which implemented the Single Supervisory Mechanism in November 2014, has brought a different model for Cecabank's relations with the European Central Bank. In this respect, Cecabank takes part in different ECB working groups related to its financial activity.

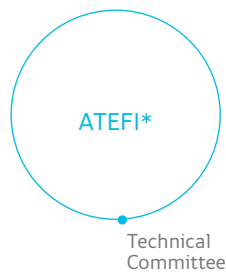
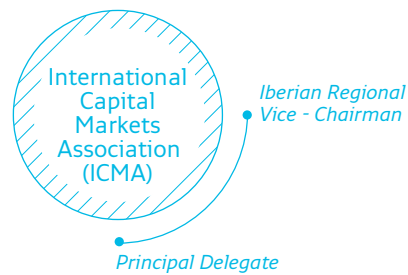
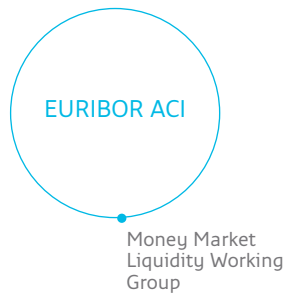
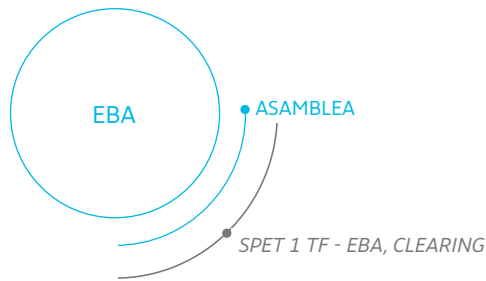
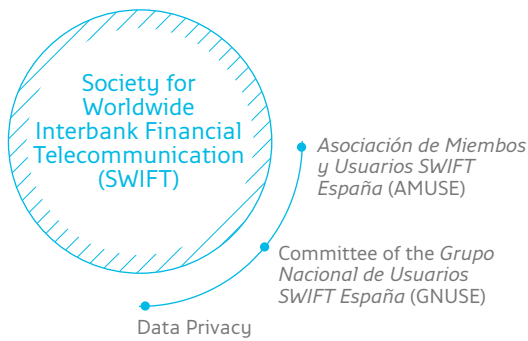
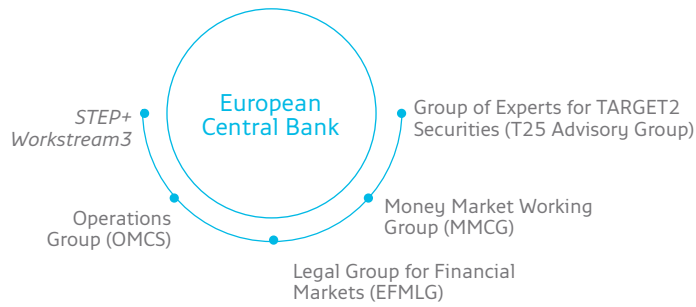
National forums



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International Forums



* Latin American Association of Operators of Electronic Transfer Services for Information Funds.

** Information Technologies and Communication Security Committee (*Comité de Seguridad de la Tecnologías de la Información y la Comunicación*).

Corporate culture

For Cecabank, offering quality service, in both its relations with clients and in internal processes, is the way it understands and conducts its daily business.

Vision and Values

Vision

Our management philosophy is based on prudence, expert knowledge and being open to change.

Values

We build lasting relationships with our clients, thanks to the values which underpin our management style and our culture.



Emphasis on excellence

Cecabank places the emphasis on excellence in its daily work. One of Cecabank's priorities is maximizing the excellence of the service provided.

Thus, in January 2015, Cecabank obtained the ISO certification for Collections and Payments, in July it obtained the ISO 27001:2013 certification for SEPA Transfers and Debits and, in December, Aenor's audit

to obtain the ISO 9001:2008 certification for Pyramid (regulatory reporting) was successfully completed, with a positive result. The Customer Satisfaction evaluation system has been aligned with the Strategic Plan.

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Customer satisfaction

The services provided for Cecabank's clients are submitted to external and internal quality evaluation every year. The level of quality and the service availability indicators are analysed in order to draw conclusions which will serve as the basis for establishing their quality improvement targets. A total of 161 clients were consulted in 2015. The average mark was 8.3 on the satisfaction index and 8.5 on the recommendation index.



Cecabank's team

Cecabank is a young bank with a qualified, dedicated team. The 508 professionals in Cecabank's team are its main asset. That is why Cecabank's personnel management model focuses first and foremost on professional development and on detecting and managing talent.

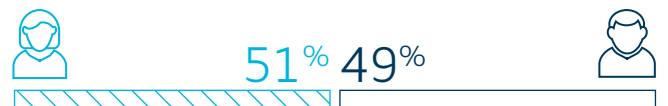
The team in figures



Labour relation



Gender



Training, Promotion and retaining talent

Investment in training is essential to the growth, development and promotion of our employees.

The development and growth of our team of professionals is a priority for Cecabank. Consequently, we believe in training and internal promotion as a means of boosting potential and creativity.

Training is reviewed and adapted to meet the needs of the business and the market, in line with the entity's goals of continuous improvement.

Training

19,960 Hours

Average investment

€800 per employee

Motivating the team

One of Cecabank's main concerns as regards human resources management is to motivate the team, with a view to creating sound lasting relationships. Fomenting a good working atmosphere, facilitating access to training and rewarding talent are just some of the policies we use to motivate the team.

Training in 2015

92% of the workforce has received training

Quality in training

81% satisfaction

Attracting and retaining talent

Managing change: Corporate development

After completing the first stage of DEDICA (Desarrollo Directivo de Calidad or Quality Mngement Development) which ensures that managers adapt to the bank's new business model and to the need to face the challenges posed by the financial market, different areas have been worked on:

- ✓ Management Committee with coaching and group sessions on monographic topics. With this, each member of the Management Committee will have a personalized scheme.
- ✓ Management team. Managers who will have a future trajectory designed in such a way that what has been learnt will form part of everyday management skills. The focus will be on business development and the development and evaluation of staff.
- ✓ DEDICA design for Technical Staff. In order to guarantee Cecabank's process of change, a programme has been designed to give Technical Staff initial training in the professional leadership competences they need.
- ✓ Redefining the Performance Evaluation model.

The second stage (DEDICA2) will reinforce competences that could still be improved.

External talent

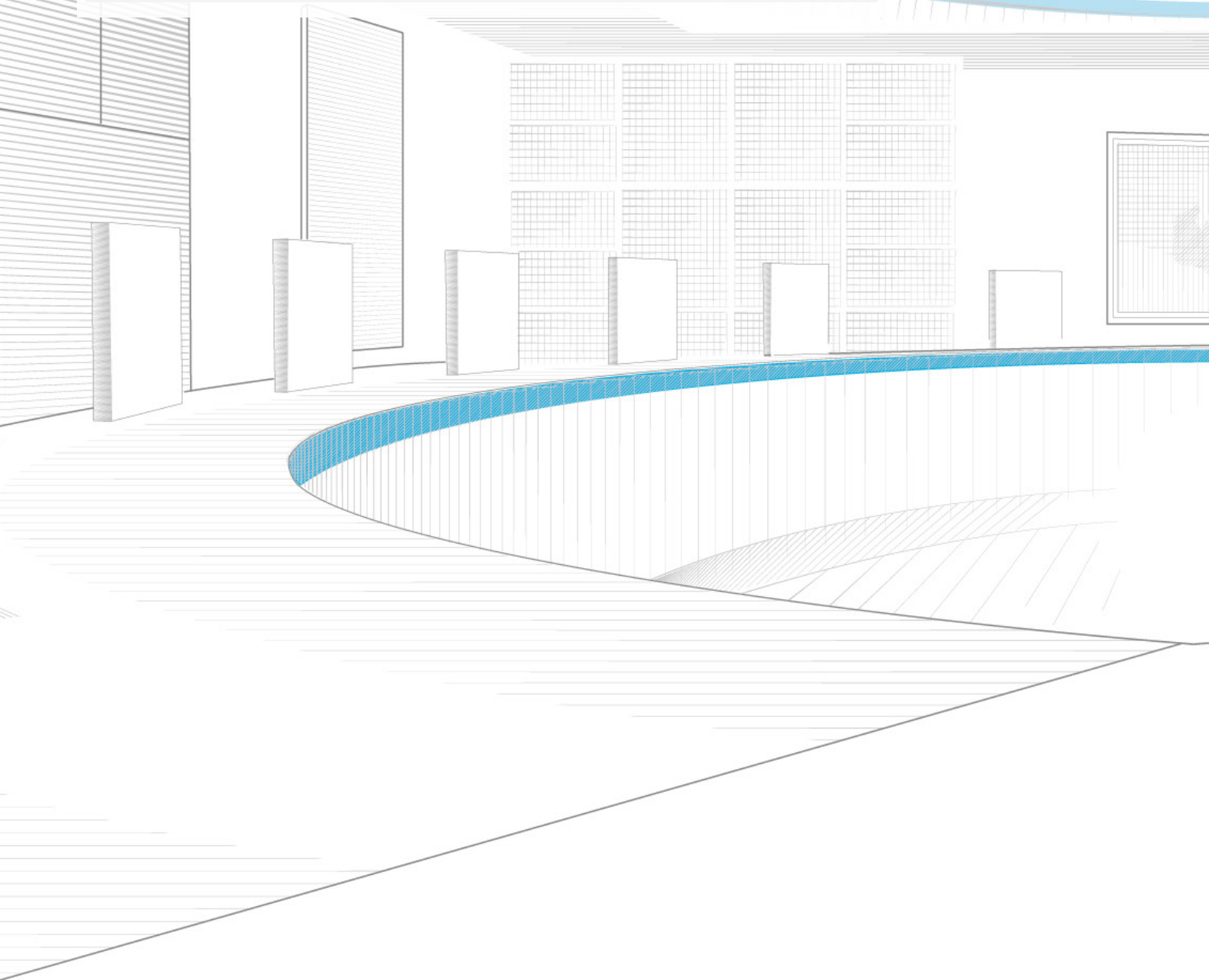
As regards **external talent**, Cecabank continued to follow the policy of internships through educational cooperation agreements with the most important universities and business centres in Madrid, in order to attract the best candidates.

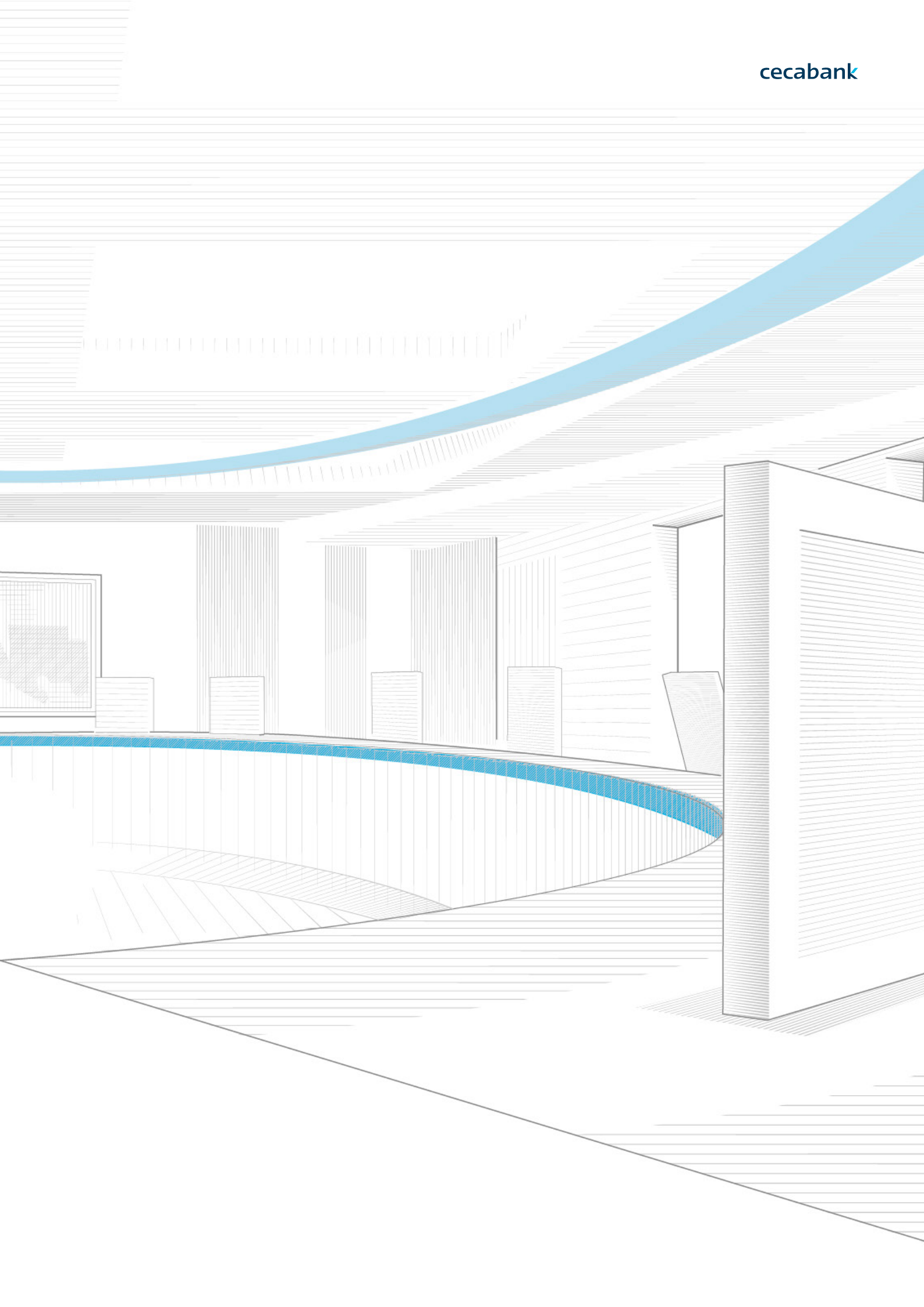
02

Corporate governance

1. **Governing Bodies** | Board of Directors | Management Committee
2. **Code of Conduct**

Cecabank's corporate governance fully complies with the standards established by the regulatory and supervisory authorities.





Governing Bodies

Cecabank has a Board of Directors with extensive experience in the financial sector.



➤ More information on Cecabank's structure and governance practices in 2015.

Board of Directors

The Board of Directors is responsible for the governance and administration of the entity and for representing it in all matters related to its turnover and in lawsuits, with the powers the Articles expressly confer upon it.



Antonio Massanell Lavilla
(Chairman)
Proprietary



D. José Luis Aguirre Loaso
(Vice Chairman)
Proprietary



D. José M^a. Méndez Álvarez-Cedrón
(Director – General Manager)
Executive



D. José Manuel Gómez de Miguel
(member)
Independent



D. Antonio Ortega Parra
(member)
Proprietary



D. Jesús Ruano Mochales
(member)
Proprietary



D^a. M^a. del Mar Sarro Álvarez
(member)
Independent



D. Santiago Carbó Valverde
(member)
Independent



D^a Julia Salaverría Monfort
(member)
Independent



D. Joaquín Cánovas Páez
(member)
Proprietary



D. Francisco Javier García Lurueña
(member)
Proprietary



D. Manuel Azuaga Moreno
(member)
Proprietary

Changes in the Board of Directors in 2015

In compliance with the best standards of Corporate Governance, a new independent director, Ms Julia Salaverría Monfort, joined the Board in March 2015. As a result of this, all the Board’s delegated Committees are now chaired by independent directors.

Functioning and material events

The Articles establish that the Board must hold at least six meetings a year, called by the chairman.

In 2015 the Board of Directors met on eleven occasions and agreed on the following, amongst others:

- To divide the the Appointments and Remuneration Committee into two separate committees: the Appointments Committee and the Remuneration Committee.
- To change the name of the Solvency and Risk Committee to Risk Committee and to change one of its members.

Moreover, the Regulations for the Board of Directors and its Committees were amended.

The General Secretary, Mr Fernando Conlledo Lantero, attended the Board meetings without voice or vote, in his capacity as non-director secretary.

Term of office

The directors are in office for a period of six years, although they can be re-elected, and they may designate substitutes if one or several of them leave the Board.

Evaluation of the Board of Directors

In 2015 the activity and functioning of the Board of Directors and its Committees were evaluated.

Gender diversity on our Board of Directors



Policy on the representation objective for the gender less represented on the Board of Directors

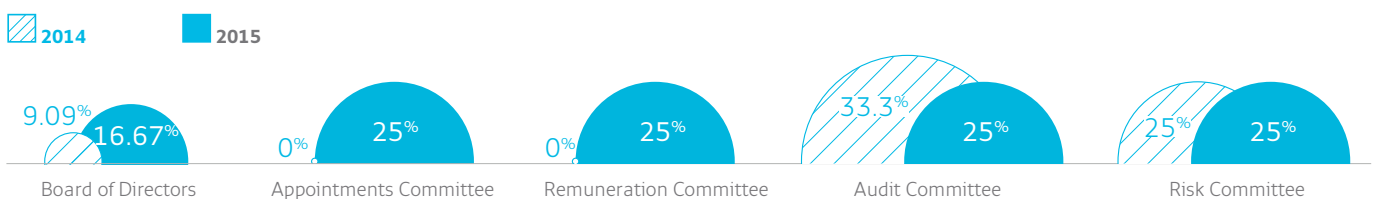
In compliance with Article 31.3 of Act 10/2014, of 26 June, on the Organization, Supervision and Solvency of credit institutions, at its meeting on 25 November 2014 the former Appointments and Remuneration Committee passed the “Policy on the representation objective for the gender less represented on the Board of Directors” (the “Policy”). This Policy contains guidelines on how to increase the number of women on the Board.

The Policy establishes a short-term objective that at least fifty per cent (50%) of independent Directors should be women. This objective was met with the appointment of Ms Julia Salaverría Monfort as an independent Director at the General Shareholders’ Meeting of 17 March 2015.

Thus, today Cecabank’s Board of Directors is formed by twelve Directors, of whom seven are proprietary, four are independent and one is executive. Two of the four independent Directors are women.

In the medium term, the goal is for the number of women on the Board to increase so that a balance between men and women is eventually reached. The vacancies which arise on the Board and its different Committees will be taken into account in aiming for this goal.

Evolution of female directors on the Board of Directors and its committees



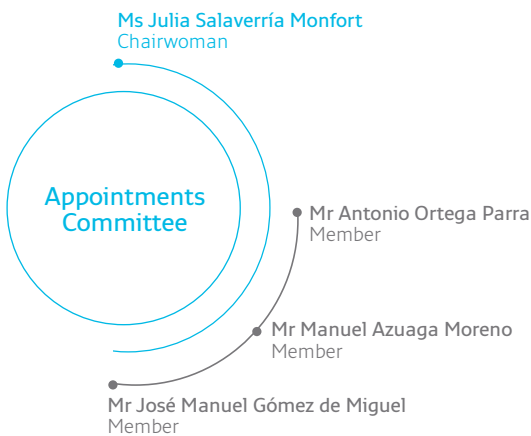
Board Committees

Appointments Committee

This committee ensures fulfilment of the requirements established in the Articles for exercising the function of member of the Board, its Committees and of General Manager.

Changes on the Appointments Committee in 2015

On 28 April 2015, the Board of Directors agreed to create the Appointments Committee, in compliance with Article 39 of the Articles of Association. It thus became the successor of the former Appointments and Remuneration Committee in relation to appointments.



Functioning and material events

The Appointments Committee is responsible for ensuring fulfilment of the requirements established in the Articles for exercising the function of member of the Board, its Committees and of General Manager.

In 2015 the former Appointments and Remuneration Committee met on two occasions and the Appointments Committee met on another two occasions. At these meetings, the following issues were addressed, amongst others:

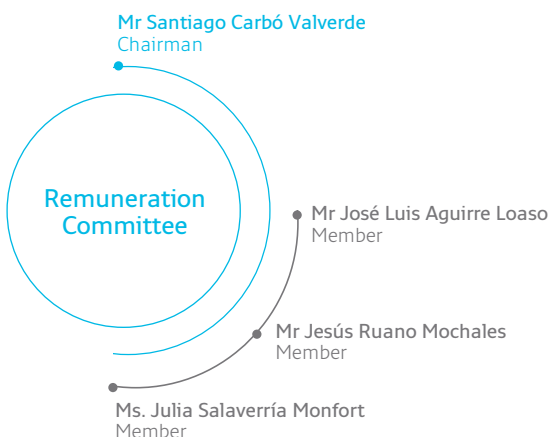
- ✓ The appointment of a female Independent Director
- ✓ The evaluation of the suitability of an employee
- ✓ The procedure for evaluating the Board of Directors and its Committees
- ✓ Directors' training needs

Remuneration Committee

This committee supervises and informs on the per diem, remuneration and incentives policy for the Directors and the entity's personnel.

Changes on the Remuneration Committee in 2015

On 28 April 2015, the Board of Directors agreed to create the Remuneration Committee, in compliance with Article 40 of the Articles of Association. It thus became the successor of the former Appointments and Remuneration Committee in relation to remuneration.



Functioning and material events

The Remuneration Committee is responsible for supervising and informing on the per diem, remuneration and incentives policy for the Directors and the entity's personnel.

In 2015 the former Appointments and Remuneration Committee met on two occasions and the Remuneration Committee met on another two occasions. At these meetings, the following issues were addressed, amongst others:

- ✓ Remuneration policy
- ✓ Remuneration of the people chairing the Committees
- ✓ The Recruitment and Selection Policy

Audit Committee

This committee supervises the entity's internal control, internal auditing and risk management systems.

Functioning and material events

The Audit Committee is responsible for supervising the efficiency of the entity's internal control, internal auditing and the risk management systems.



In 2015 the Audit Committee met on five occasions, when the following issues were addressed, amongst others:

- /// The control function and its annual reports
- /// The internal auditing plan
- /// The external expert report on the prevention of money-laundering and financing of terrorism
- /// The update of the framework for the organization and management of criminal risk
- /// The strategic plan for internal auditing
- /// External auditing
- /// The framework for internal hiring and the procedure for granting powers

Risk Committee

This committee knows and regularly analyses the entity's liquidity, solvency and risk position, and informs the Board of Directors of new regulations in relation to this.

Functioning and material events

The Risk Committee is responsible for knowing and regularly analysing the entity's liquidity, solvency and risk position, and informs the Board of Directors of new regulations in relation to this.



In 2015 the Risk Committee met on four occasions, when the following issues were addressed, amongst others:

- /// The entity's solvency and risk position
- /// The Self-evaluation of Capital Report (SCR) and the Prudential Importance Report (PIR)
- /// The exercise of the entity's stress test
- /// The Recovery Plan
- /// The structuring of the risk function and the review of the Risk Tolerance Framework

Management Committee

The Management Committee is the highest-ranking body assisting Cecaban's General Management.



José María Méndez Álvarez-Cedrón
General Manager



Agustín Márquez Dorsh
Assistant General Manager of the Technology Division and Global Business Coordinator



Jorge Gil Lozano
Assistant General Manager of the Operations and Finance Division



Antonio Romero Mora
Assistant Manager of the Services for Federated Banks and Auditing Division



Ana María Raposo Ferreira
Manager of the Resources Division



Ainhoa Jáuregui Arnáiz
Manager of the Planning Division



Francisco Javier Píanelles Cantarero
Manager of the Operations Department



Andrés Martín Pintor
Manager of the Risk Division



Fernando Conlledo Lantero
Secretary General-Manager of Legal and Tax Advisory Services



José Manuel Villaverde Parrado
Manager of the Finance Department

Scope of action and functioning

Apart from the function described above, the Management Committee also has the following basic responsibilities:

- ✓ Deciding on matters which the Board of Directors directly submits to it.
- ✓ Deciding on matters which the General Manager submits to it before they are approved by the Board of Directors.
- ✓ Deciding on matters which the General Manager submits to it on his own initiative.
- ✓ Approving the entity's standards of conduct and internal regulations

The Committee is formed by the entity's senior managers. However, other employees may attend meetings with voice and vote when the chairman of the Committee so requires.

The Management Committee meets prior to the meetings of the Board of Directors and whenever it is called by the chairman. In 2015 it met on sixteen occasions.

Executive Committee

The Executive Committee is the body to which the Management Committee's most important functions are delegated. This committee is formed by the entity's General Manager, the Assistant General Managers and Assistant Managers.

In 2015 the Executive Committee met on nine occasions.

Code of Conduct

Cecabank has a Code of Ethics which formalizes the commitment of all the entity's professionals to the highest standards of integrity and professional ethics.

All the members of the governing bodies and the employees thus assume a set of principles and standards of behaviour to guide their work

Some professionals are also subject to specific codes of conduct related to their sphere of work, such as the Internal Regulation for Conduct in the securities market.

The entity has an Ethics Channel which started to fully function in 2014.

The Ethics Channel is managed by the multi-disciplinary Monitoring Committee, comprising the Head of Auditing, Control and Compliance, the Secretary General-Manager of Legal and Tax Advisory Services, the Manager of the Resources Division and the Management of Social Investment and Innovation.

This Committee is responsible for ensuring the correct functioning of the communication channel created for employees for matters related to the Code of Ethics. It transmits the questions and complaints received, guaranteeing privacy, confidentiality, impartiality, efficacy and objectivity.

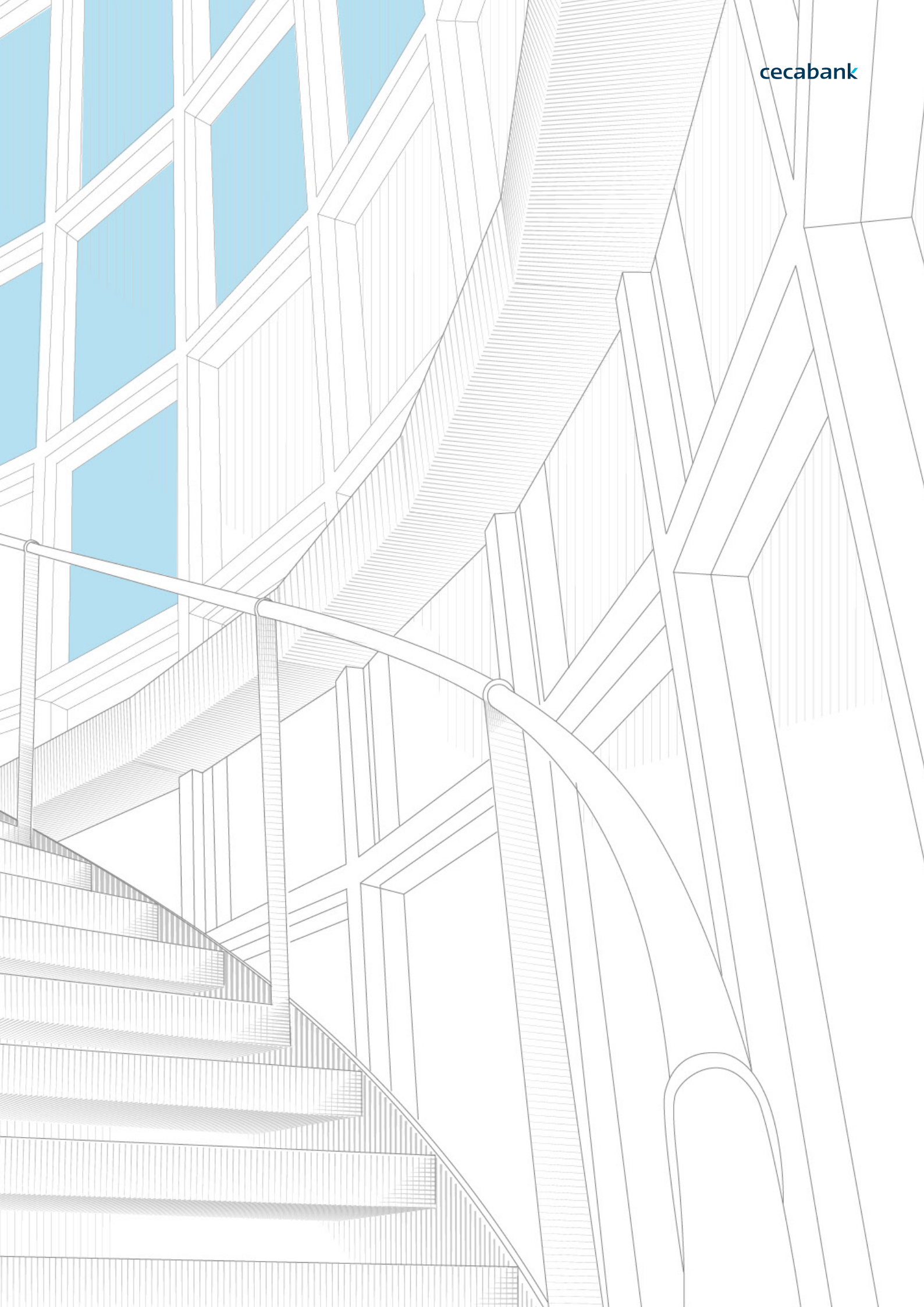
In 2015 the Monitoring Committee received no questions or complaints. It met on four occasions, on a quarterly basis.

03

Our business model

1. **Strategic lines** | Economic and regulatory environment | Building the future | Business Lines
2. **Financial information** | Activity | Results | Capital base | Ratings
3. **Risk management** | The risk function at Cecabank

We have consolidated our position as a strategic partner, which specializes in wholesale (Bank to Bank) services and we play a major role in the Spanish financial system.



Business lines

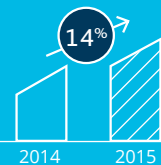
Cecabank is a financial institutions which specializes in:



Securities Services

Assets under custody in the securities markets ores

111,000
million euros



Leading independent Spanish depository for investment and pension funds



Treasury Management

Spanish Treasury market maker for

Public debt

Direct member of the main Central Counterparty Clearing Houses

BME Clearing	LCH Londres
Eurex	LCH Paris



Banking Services

Transactions processed in real time

+9,000 million per year with:
99.9999% level of service

Cards processed per year	E-banking clients
10 million	1.96 million

Strategic lines

Economic and regulatory environment

Economic environment

After five years of economic recession, in 2015 the Spanish economy consolidated the recovery trend which started at the end of 2013 and registered GDP growth of 3.5 per cent in the fourth quarter of the year, almost doubling average growth in the eurozone.

However, quarterly economic growth slowed slightly in the second half of the year and this will be the trend in 2016. Funcas' forecasts estimate 3.2 per cent growth for 2015 as a whole and 2.8 per cent in 2016. Amongst the reasons for these projections for slower Spanish economic growth are:

- The deceleration of world growth and world trade, especially in the emerging bloc.
- The lesser impact of some favourable events which occurred in the first half of 2015, such as the downturn in oil prices and the tax policy.

- The increased uncertainty associated with the new election process in Spain and external geopolitical factors.

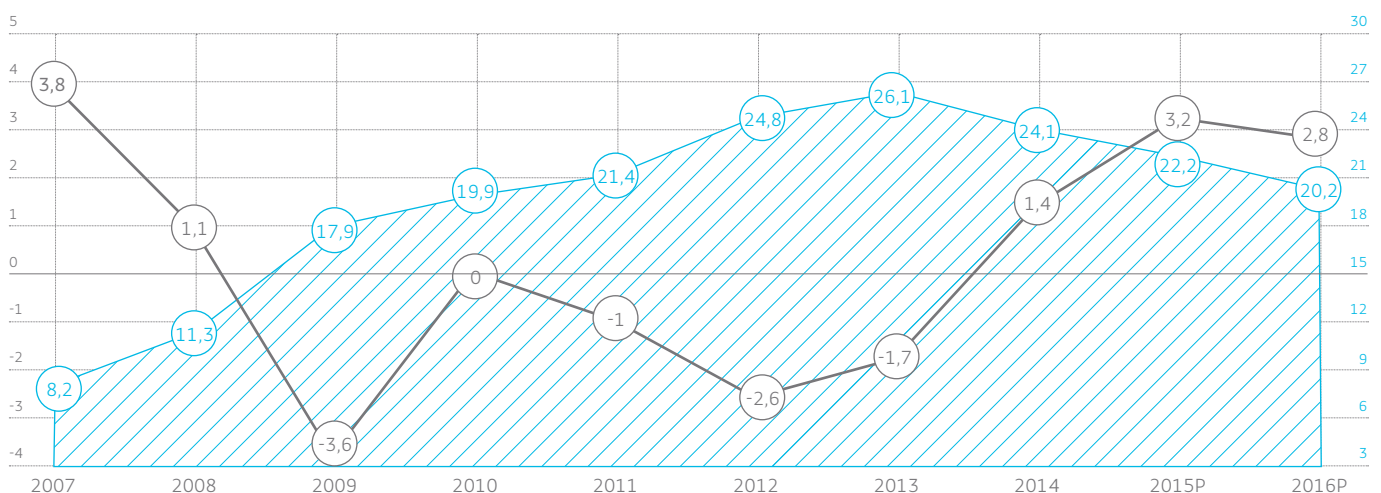
Despite the more buoyant Spanish economy, the situation of the labour market and the high volumen of public debt are particular causes for concern.

- The unemployment rate reached a high in 2013, at just over 26 per cent, but has started to gradually fall since then, albeit at a very moderate rate. Funcas' forecasts put unemployment at around 20 per cent in 2016, still a far cry from the 8 per cent registered before the crisis.
- The public debt rate was around 100 per cent of the GDP in 2015, which makes it a vulnerable element in the Spanish economy if there were to be any disturbances in the interenational financial markets.

GDP growth and unemployment in Spain

Source: FUNCAS

GDP (annual change) Unemployment rate (right-hand axis)

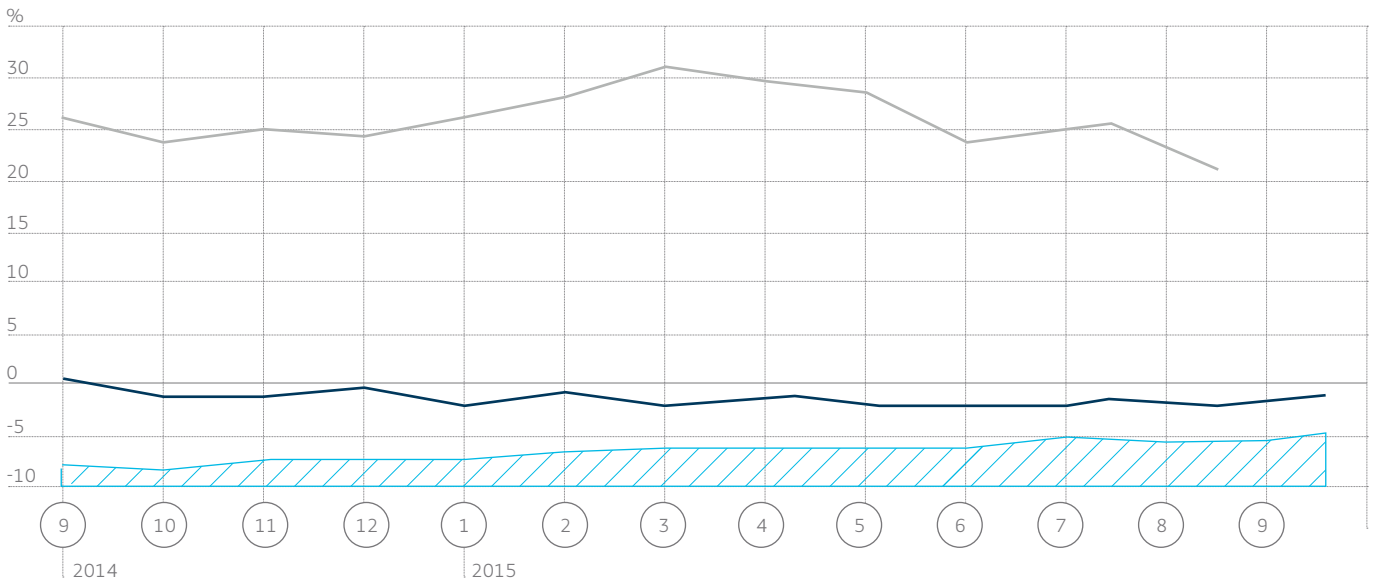


03 Our Business Model

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- 2. **Financial information** | Activity | Income Statement | Capital base | Ratings
- 3. **Business risk** | The risk function at Cecabank

Loans and retail funds

Off-balance-sheet funds **Loans** Deposits



Interest rates

The financial context was marked by expansive monetary policies continuing to be applied by the main Central Banks but interest rates are expected to be divergent in the short and medium term:

- / In the USA, the Fed initiated an upward interest rate cycle, with an increase of 0.25 percentage points in December as growth and employment rates improved. Once the uncertainty surrounding the date of monetary normalization disappeared, the markets focused on the rhythm of the Fed's subsequent increases.
- / In Europe, the ECB wanted to stimulate the European economy in order to meet its inflation targets. Thus, at the last meeting in December, Mario Draghi announced the extension of the asset purchase programme until March 2017, besides other measures such as including regional government and local councils' debt assets denominated in euros and the reduction of the deposit facility to -0.30 per cent.

The continuation of the expansive European monetary policy will create a favourable financial environment for the Spanish economy, characterized by abundant liquidity, a lower risk premium and a weak euro. However, this environment will not be risk free and these risks are associated with the reaction of the main emerging markets to U.S. monetary normalization and with the growing geopolitical tensions.

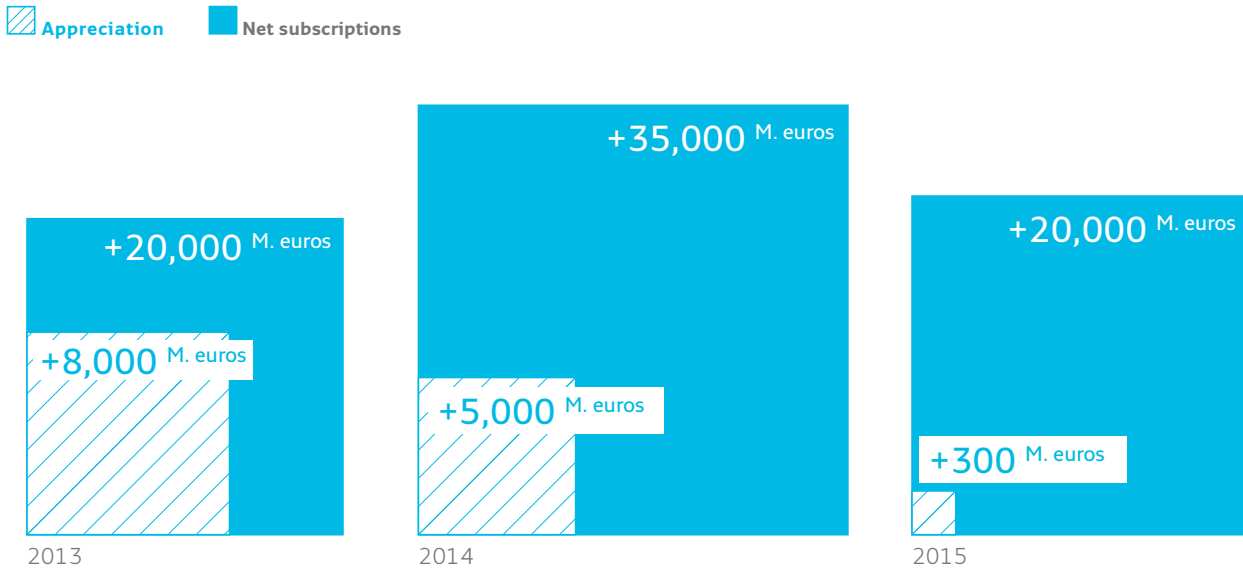
Retail banking

In 2015 Spanish banks ran their businesses in a context of moderate economic growth and high unemployment rates and they will have to continue to work with very low interest rates and increasing regulatory pressure:

- / Despite the increase in new funding granted, the balance of bank loans to the private sector continued to fall, to reach -4.3 per cent in December.

Investment funds. Change in assets
 Accumulated from January to November

Source: Inverco



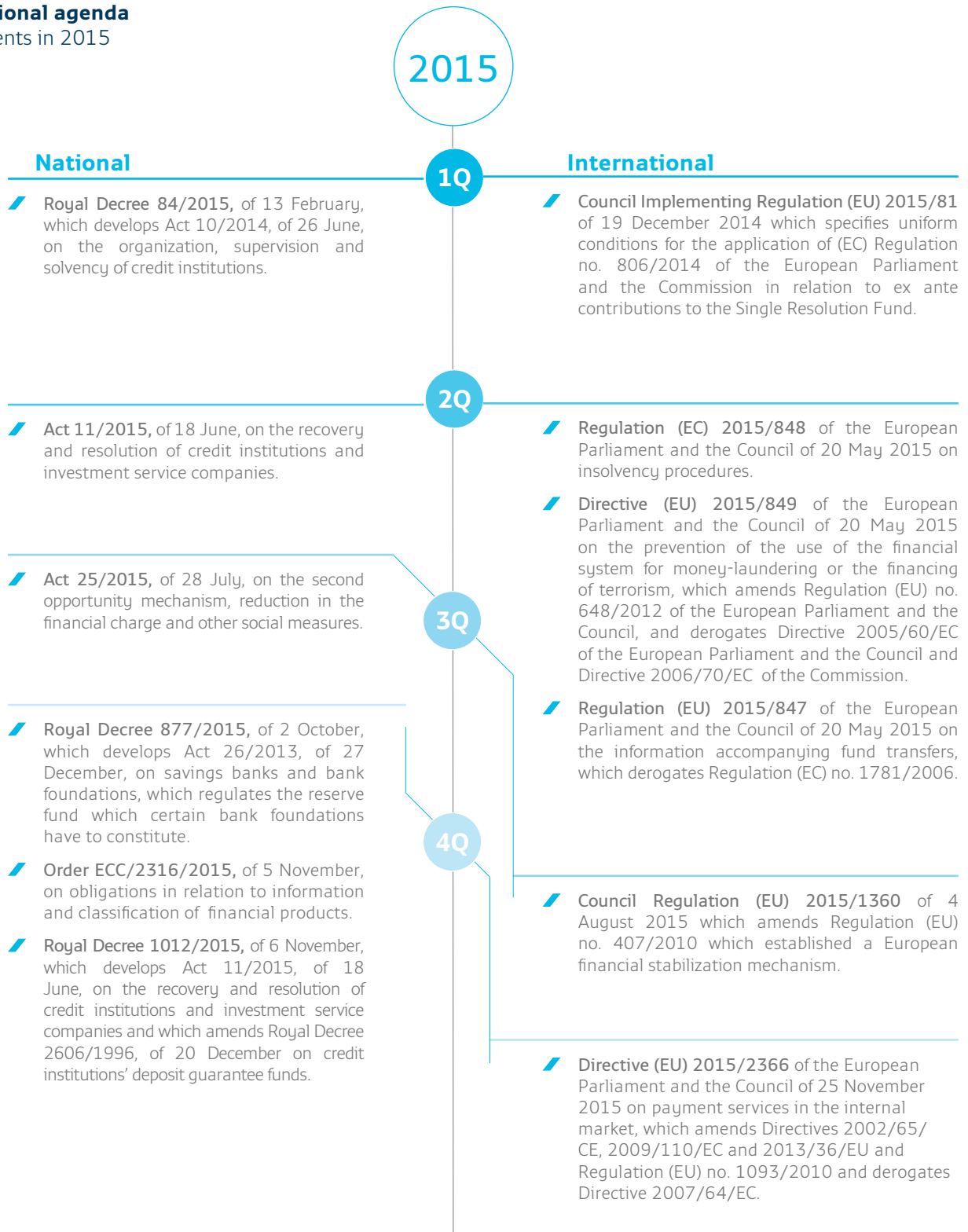
- The bad debt rate continues to fall, as it has since the beginning of 2014, but it is still around 10 per cent, above the European average.
- The low return on time deposits continued to lead to a move away from these instruments towards off-balance-sheet funds and particularly investment funds. In 2015, the assets accumulated in investment funds in the first twelve months of the year increased by some 25 billion to reach 220 billion, the highest figure since February 2008.

- The prolongation of a scenario of very low interest rates is leading to a much narrower net interest margin, which has only been partially offset by the efficiency gains associated with restructuring. Consequently, attaining sustainable profitability levels is one of banks' main concerns and, in some cases, this means re-orientating their business strategies to adapt to the new economic and regulatory environment.

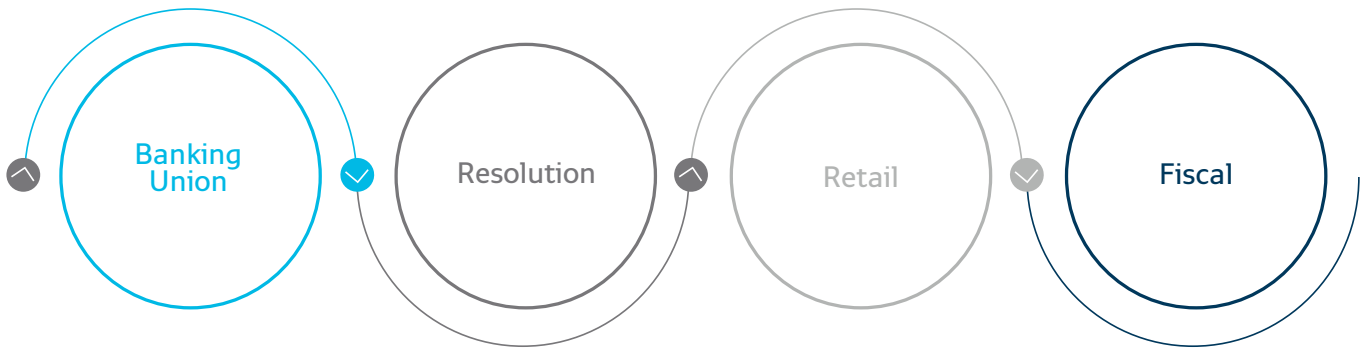
Regulatory environment

Institutional agenda

Main events in 2015



Balance Sheet 2012/2015



If anything marked this legislation, it was the great cession of sovereignty stemming from the transfer of the supervision and resolution competences of our financial system to European authorities, which has even been compared with the implantation of the single currency in 2002 because of its importance.

Thus, the creation of the **banking union** implied the redefinition of the competences of national authorities (mainly the Bank of Spain and FROB but also the Spanish securities commission, CNMV, albeit to a lesser extent) and their integration in the new European mechanisms, on the basis of the three pillars of the banking union: the Single Supervisory Mechanism (SSM), the Single Resolution Board (SRB) and the future deposit insurance fund for Europe (EDIS). Entities will be subject to a new global, more prospective, supervisory approach (with the focus on corporate governance), the main exponent of which is the SREP (Supervisory Review and Evaluation Process), which will even address aspects related to the entity’s strategy.

The most notable novelties in the banking union are those related to the **resolution and recovery** of credit institutions. If anything came out of the crisis, it is the political intention of not having to restructure the financial system at the taxpayers’ expense ever again. To avoid this, new national and European regulations have been passed whereby internal recapitalization or bail-ins constitutes the basic tool in entities’ recovery or resolution processes. Thus, the bulk of the expense is assumed by shareholders’ and creditors. Complementing this, national **resolution funds** are created which can also contribute to entities’ recovery in the second instance and which will gradually be mutualized in a single European fund.

Notable as regards the regulations for **retail** banking is the approval of the reform of the MiFID (*MiFID 2-MiFIR*) and the PRIIPS regulation (*Package Retail and Insurance-based Investments Products*), which together seek to increase investor protection levels.

03 Our Business Model

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Also in this field on a national level, the legislator's agenda was marked by the problems associated with mortgage debtors. The following measures have been implemented:



Preventing evictions

Preventing evictions and measures to this end



Code of Good Practice

Reducing the charge for debtors in vulnerable situations, through the Code of Good Practice.



Social Housing Fund

Creating a Social Housing Fund

In the past few years, the regulatory environment has been very difficult to address, with significant effects on management of the entities.

Lastly, as regards **fiscal** matters, in an environment of persistent public deficits stemming from the crisis (Public Administration debt to the GDP is around 100 per cent in Spain and the ratio for the Eurozone is 95 per cent) at the national level, a succession of autonomous regulations taxing banking (tax on deposits and, more recently, on empty housing) were approved. In the European arena, the debate was centred around finding a solution to prevent the deduction for deferred tax credits, which would have had a major impact on banks. The solution adopted by the Government was finally validated by the European Commission (at a cost for the entities) and lends stability to the Spanish financial system in the immediate future.

Upcoming trends

There are three clear distinctive areas of regulatory action in the coming years:

1

Completion of the Banking Union

One of the main priorities for the European financial system is to complete the banking union. Now that the SSM is fully functioning (albeit pending a fine adjustment which could have significant effects through the standardization of national peculiarities) and the SRB is also starting to constitute the Single Resolution Fund, the third pillar is still pending, i.e. the creation of a single European deposit guarantee fund. To this end, the so-called Five Presidents' Report recently announced the relaunch of this initiative, now called the EDIS (European Deposit Insurance Scheme). This is crucial to lending credibility to the new European framework in terms of being able to face future crises on stronger foundations.

2

Launch of the Capital Markets Union

An innovative project in this legislature was the creation of what has been called a capital markets union. Its object is to move towards greater European integration and to eliminate or reduce current differences in accessing financing for businesses depending on the member state. One of the keys to this project is to improve financing for SMEs, with a view to reducing their depending on bank funding and making it easier for them to access the capital markets. Different measures have been put in place to this end, such as the standardization of simple, standardized, transparent securitizations and the groundwork for a future European framework for covered bonds (which affects mortgage bonds in Spain).

3

New solvency regulation

Lastly, the new European solvency regulation CRR-CRDIV, stemming from the Basel III capital agreement, will be gradually implemented in the coming years. New measures which are being put in place, such as the leverage ratio or stricter limits to risk concentration, along with the gradual standardization of risk-weighted assets, will be crucial aspects because of their potential impact on financial institutions.

Building the future

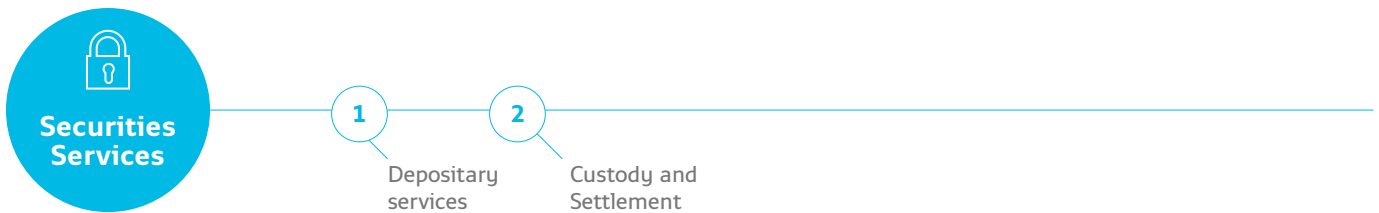
Cecabank has consolidated its position as a strategic partner which specializes in wholesale (Bank to Bank) services and plays a major role in the Spanish financial system.

At the end of 2012, we undertook a strategic analysis process which resulted in the definition of the 2013-2016 Strategic Plan, approved by our Board of Directors in June 2013.

This plan started with a competitive analysis of our business lines and this led to the redefinition of Cecabank's businesses, some economic projections and

the deployment of a set of strategic business initiatives to achieve the model defined.

Now, three years after the implementation of the Strategic Plan, the majority of the objectives established have been achieved – or nearly so, and this enables us to start to think about the next strategic plan and Cecabank's future opportunities.



Depository services

The Depository business continues to consolidate its leading position in the market. Financial year 2015 ended with assets under custody of over 89,500 million euros, as compared to 64,500 million euros in December 2014.

The year's increase was due to the transfer of Funds from Barclays, pension plans from Unicaja, CNP/BVP, Caja Badajoz Vida, Banco Madrid and Investment Funds from Unicaja, accompanied by positive market performance.

Custody and Settlement

The Custody and Settlement business continues to present great potential, thanks not only to the reform of the securities market and the business brought from the depository services, but also to the exploration of other services in the value chain, which may be of interest to present and potential clients. The advances in the reform of the securities market are at the trial stage and we contacted banks and managers about new services. Cecabank became a Global Clearing Member of Iberclear, which will bring new business opportunities in the coming years.

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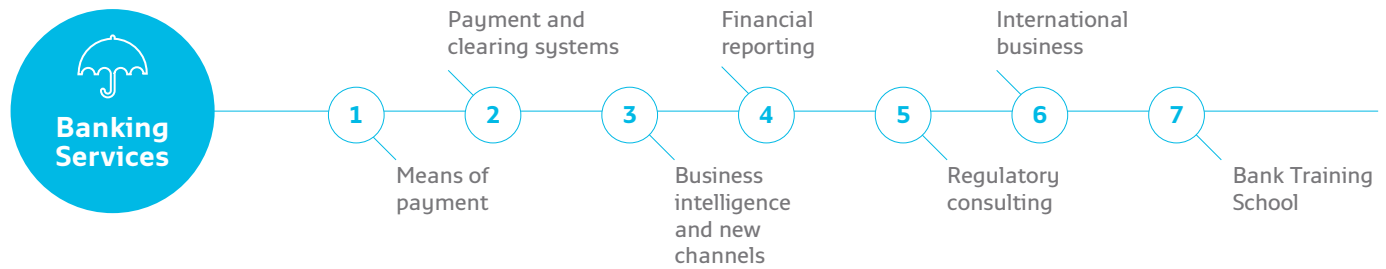


In 2015, the growth of the business outstripped the estimates in the Strategic Plan.

Cecabank continues to explore and diversify treasury management clients. New operations were conducted with Public Administrations and the business with corporates is growing, thus increasing the variety of transactions. Currency transactions were favoured by

the increase in tourism and the depreciation of the euro. New clients are being captured from traditional sectors and others.

The Treasury Platform is fulfilling the implementation plan for *ICO* (official credit institute) projects, and is adding clients from other entities in the sector.



The economic recovery is being reflected in the rise on consumer indicators, and this is also reflected in the payments and business processes activity.

In the past three years, improved efficiency has strengthened relations with clients and has led to greater diversification.

2015 Milestones

Payments

New entities at the service of SNCE (national electronic clearing system) representation and SWIFT coverage. Means of Payment had contacts in the international arena to explore possible collaboration. The payment business from the London office is growing and other entities were contacted with a view to its possible expansion

Innovation in payments: a P2P payment project using mobile device is being developed and its commercial launch is forecast at the beginning of 2016. Cecabank is also taking part in the financial sector project for the launch of an immediate payment platform.

Business processes

E-banking: new contracts were signed with several small and medium-sized enterprises outside the traditional sector.

E-invoicing

This registered strong growth, thanks to e-invoicing at Public Administrations and the addition of Caixabank.

Advisory services:

In the regulatory field: new reporting modules adapted to changes in regulations are being developed and the projects for the CRS, MiFID2 and PRIIPS model have come on stream, along with tailored projects.

Regulatory Reporting

This business is winning new contracts and studying moving into new customer segments. Moreover, the digitalized signature has attracted new clients.

Corporate initiatives implemented

Adapting the organization:

Within the field of **Corporate Governance**, on 17 March Cecabank held its General Shareholders' Meeting, where it was agreed to amend the Articles to adapt them to the changes stemming from Act 10/2014 on the organization, supervision and solvency of credit institutions and Act 31/2014, which amends the Act on capital companies to improve corporate governance. Following the improved standards for Corporate Governance, the Appointments and Remuneration Committee was divided into two. Moreover, a new independent female director joined the Board and, consequently, all the Board's

delegated Committees are chaired by independent directors. This initiative is still being worked on, including the Board's self-evaluation process which was developed in 2015.

Within the **Capacity Reduction Plan** undertaken in 2010, the plan for structural adjustments foreseen in 2015 was implemented.

The **Mechanization Plan** continues to be executed, with a strong focus on support for the activities of the Securities Services department, both in developments related to the Securities Market Reform and in improving the processes of Securities and Depositary services.

Managing

In the field of **Quality Management**, in January 2015 Cecabank obtained the ISO certification for Collections and Payments and in July it obtained the ISO 27001:2013 certification for SEPA Transfers and Debits. In December the Aenor audit was successfully conducted with a view to obtaining the ISO 9001:2008 certification for Pyramid (Regulatory reporting) and the result was positive. The evaluation system for Customer Satisfaction was aligned with the Strategic Plan.

In respect of the **Communication Plan**, the 2nd Seminar on Securities Services was held in January and work was

performed to enhance the contents and positions of the Cecabank web. A procedure was established for reviewing the contents on the corporate website and a webpage manager was appointed.

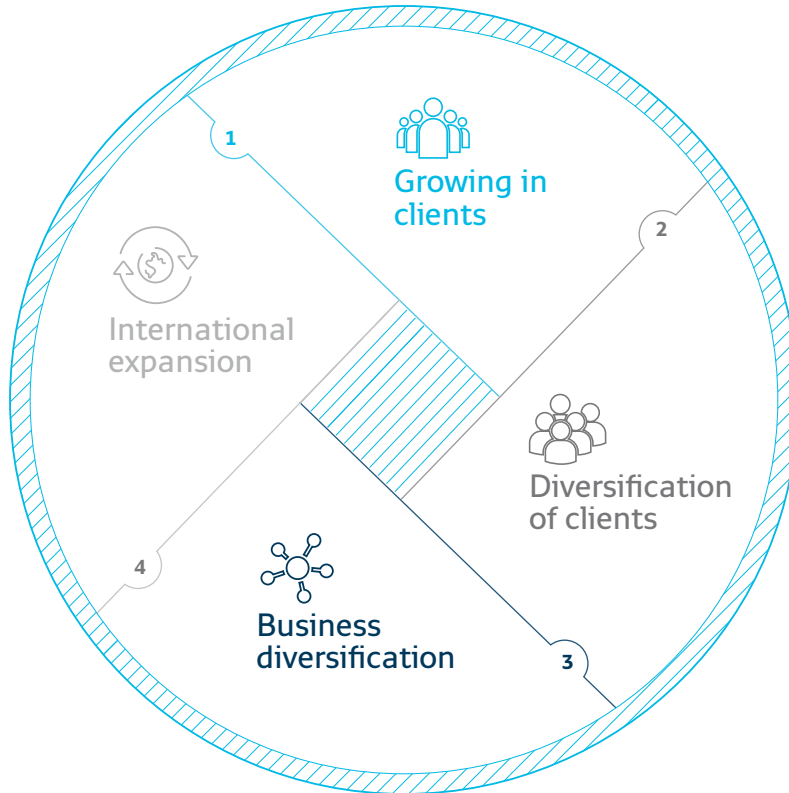
The **Management Development Plan** (*Plan de Desarrollo de Directivos - DEDICA*) moved onto its second stage, which will be aimed at boosting competences that can still be improved. The DEDICA plan was also designed for technical staff and the Performance Evaluation model was redefined.

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Business outlook

Following the Strategic Plan and taking into account the challenges defined in it, Cecabank worked on defining strategic business targets for 2016.



The strategic targets aim to mainly centre commercial work in 2016 on:

1

Growing in clients: Increasing customer income and margins, achieving greater loyalty and promoting cross sales.

2

Diversification of clients: Achieving greater penetration in strategic segments: insurance firms, public administrations and corporates. With this end in view, a working group has been set up, along with a market research project for insurance firms.

3

Business diversification: Complementing the current offer with new services leveraged on our capacities and nature as a wholesale bank.

4

International expansion: Seeking opportunities, capitalizing on the foreign network and the new European Banking Union framework.

Business lines

Cecabank is a financial institution which specializes in:

 <p>Securities Services</p>	<p>Assets under custody in the securities markets</p> <p>111,000 million euros</p> <p>Leading Spanish independent depository for investment and pension funds</p>	<p>We are the strategic partner for banks, insurance firms, investment and pension fund managers and brokers and we cover the entire value chain in post-trading processes for securities of every description. Cecabank is a General Clearing Member of the Central Counterparty and this enables us to provide clearing services for members of the market.</p>
 <p>Treasury Management</p>	<p>Spanish Treasury market maker for Public Debt</p> <p>Top 3 dealers in Fx, Repos and an important counterparty in derivatives and securities lending</p> <p>Leader in the wholesale foreign banknote market in Spain</p>	<p>The Trading Room performs transactions in the leading national and international markets for fixed (public and private) income, currency, equities and derivatives, both on a proprietary basis investing its own capital, and to meet customer orders. Moreover, with the philosophy of achieving economies of scale, we market and administer a treasury, risk and collateral management platform, which is used by Cecabank and by several banks in the Spanish financial system.</p>
 <p>Banking services</p>	<p>The network processes Euro 6,000</p> <p>Cards processed per year</p> <p>10 million euros</p> <p>99.9999% level of service</p>	<p>We provide support solutions for business processes and specialized technology for payments, channels and business intelligence.</p> <p>Cecabank is also distinguished by its professionalism and expert knowledge in regulatory consulting and advisory services, and financial reporting.</p>



Securities Services

Depository services

Depository services for investment funds (funds and SICAVs) and pension funds (individual, associate and employment schemes).

The service has the AENOR-UNE-EN ISO 9001, certification for quality management, which was renewed in 2015.

Activity during the year

In financial year 2015, total assets under custody at Cecabank increased to reach 89,477 million euros, as a result of both the increase in assets from investment and pension funds previously deposited, and the addition of new managers as clients of our depository services

February 2015

A total of eighty pension funds, with total assets of 2,130 million euros, managed by three managers- Unicorp Vida, Caja España Vida and Duero Pensiones, were transferred from the Unicaja group.

March 2015

After the bail-out of Banco Madrid Gestión, the Spanish stock exchange commission, CNMV, designated Cecabank as the provisional depository for the investment funds which were deposited at Banco Madrid at the time and initially managed by Banco Madrid Gestión de Activos (BMGA) and then by Renta4 Gestión. The transfer of these funds implied the addition of 21 investment funds (880 million euros), 14 SICAVs and 1 SIL (479 million euros).

As of 31 December 2015, assets from funds amounted to 186.6 million euros. Moreover, 32 investment funds, with assets amounting to 2,537 million euros managed by Barclays Wealth Management, after Caixabank acquired Barclays, were added.

April 2015

The 27 pension funds and an EPSV, with total assets amounting to 1,062 million euros, managed by CNP Barclays, were added.

May 2015

As a result of Caixabank's acquisition of Barclays mentioned above, 62 SICAVs, with assets amounting to 492 million euros managed by Barclays Wealth Management, were also deposited at Cecabank.

September 2015

A total of 97 investment funds and 4 SICAVs, with assets amounting to 5,507 million euros managed by Unigest and Unicorp Patrimonio, were transferred from the Unicaja group.

December 2015

Cecabank was appointed the depository for the investment and pension funds and EPSV previously deposited at Abanca. The 11 investment funds have total assets of 1,088 million euros and are managed by Imantia Capital. The 33 pension funds and the EPSV (1,412 million euros in assets) are managed by three different entities. Two of them joined Cecabank as new clients: Abanca Vida y Pensiones and Abanca II Vida y Pensiones

Main figures

December 2015

Cecabank is the leading independent Spanish depository for investment and pension funds.

Assets under custody in excess of

89,479 million euros

Divided between

1,135 investment and pension funds

Managed by

25 companies

03 Our Business Model

1. **Strategic lines** | Economic and regulatory environment | Building the future | Business lines
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3. **Business risk** | The risk function at Cecabank



Securities Services Custody and settlement

Custody and settlement services in both national and international markets, which enable clients to cover all markets and products types, with a single supplier. Cecabank is one of the leading suppliers in the Spanish market in terms of both the daily volume settled and assets under custody.

Cecabank has designed operating solutions to offer services to direct clients and to entities and managers with a large volume of assets and number of end customers. From our role as a leader and a specialist, we are taking part in all the working groups which are preparing the Reform of the Spanish Securities Market and *Target 2 Securities* (together with the CNMV, Iberclear, the Bank of Spain and the European Central Bank).

We are informing our clients of the operating and regulatory changes which the Reform and T2S will involve through communications, seminars and conferences. Cecabank has already added a new equities segment at the Central Counterparty, as a General Clearing Member, a position which enables us to extend our range of services for brokers and all types of market players.

Activity during the year

In financial year 2015, the service had the following priorities:

- To provide operating support for the integration processes of three entities and new managers in the Depositary activity.
- To take part in the working groups which have been formed (the CNMV, IBERCLEAR, BME CLEARING, the Bank of Spain and the European Central Bank), in the project called "Spanish Market Reform" to adapt operations to *TARGET 2 SECURITIES*.
- Adapting and developing new functionalities in the computer software which will enable us to meet the functional requirements established by market infrastructures within the framework of the Securities Market Reform.

The service has the AENOR-UNE-EN ISO 9001, certification for quality management, which was renewed in 2015.



- Providing our clients with access to the first group of markets in the T2S platform.

Main figures

December 2015

Assets under custody

111,000 million euros

17%

Trades settled

over 1,230,000

No. of trades settled

Spanish market

Equities
933,761

Public debt
152,011

Private fixed income-AIAF
24,849

International market

Fixed income and equities
126,492

Assets under custody

(At cash value expressed in euros)

Spanish market

Renta Variable
15,154 million

Public debt
23,748 million

Private fixed income-AIAF
8,663 million

International market

Fixed income and equities
63,893 million

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Securities Services

Interview

Jose Luis Rebollo Palomero
Manager of the Sales Department

[View interview online](#)

Spanish Securities Market Reform



What is the purpose and the main novelties of the Securities Market Reform (the Clearing, Settlement and Registration System)?

The reform of the securities markets comprises a set of measures which we have to adopt in the Spanish securities market to adapt to the European settlement platform called Target 2 Securities (T2S).

This is a platform created by the Eurosystem so that all the European markets have a common settlement system. The idea is to be more competitive and to reduce costs. Spain has to adapt its entire settlement mechanism, including the creation of a Central Counterparty Clearing House, to be able to meet the objectives and standards established by Target 2 Securities.

As a Spanish entity which offers custody and settlement services, what do these changes imply for Cecabank?

It is a great challenge for the bank. Firstly, like any other entity in the Spanish market, it has to adapt and set up all the mechanisms for forming part of the new system. This has meant that in the last three years we have had to work on the computer aspect and on training our teams to adapt all our systems to the new environment of the reform.

But there is another side to it. The reform is a change, and as such, it brings business opportunities with it. We have gone from offering custody and settlement services to offering custody, clearing and settlement services. The reform has enabled us to reach a larger number of clients and a number of different clients from what we worked with before and, consequently, it allows us to extend the range of services offered by Cecabank Securities Services.

And what do they imply for your clients?

Up to now, we have worked on developing systems, on new business models and new services, but this has to be explained to our clients. It will be a complete change of lifestyle for them. The typical customer

who was used to buying telephone companies or any other securities will have to get used to the fact that things are going to change radically. For instance, in the current system, when a client buys securities, their settlement is guaranteed and the system has mechanisms which ensure that the customer always receives their securities, come what may.

With the reform, settlement is no longer guaranteed. Although there is a clearing house, the securities will only become the customer's property when the seller has handed the securities over and the buyer has disbursed the cash. Consequently, the system is different.

It is also important to remember that financial operations change. For example, now when a client reads in the newspaper that Telefónica will be paying dividends the next day, they will have the right to the dividend if they buy Telefónica shares today. Tomorrow, with the reform, a set of mechanisms are established which define exactly when the client buying has the right to receive the dividend.

Consequently, clients are going to notice a series of changes - very significant changes - in their operations.

Changes of course - and very substantial ones - but the system is still secure

Should clients be worried?

It's true that the system is different and it's true that the mechanisms are very different and that clients have to adapt. But clients need to know that there is no reason at all for them to worry or be alarmed. The system has created a set of mechanisms to keep the number of failed operations down. Thus, all the customers who buy shares will receive their shares and all the customers who have the right to dividends will receive their dividends. So, changes, of course - and very substantial ones - but the system is still secure.



Treasury Management Trading Room

The Trading Room performs operations in the main national and international (public and private) fixed income, currency, equity and derivatives markets, both on a proprietary basis and for our clients. These activities are always conducted following principles which guarantee a comfortable liquidity position and high solvency. Moreover, Cecabank is the market maker for Spanish Treasury Public Debt, taking an active part in auctions and facilitating liquidity in the secondary market, not only in spot purchases and sales, but also in financing in the repo market. The bank is a direct member of the main Central Counterparty Clearing Houses (BME Clearing, LCH London, LCH Paris and Eurex).

Moreover, Cecabank is a benchmark in the market for the purchase and sale of foreign banknotes.

Spanish Treasury market maker for

Public Debt

A direct member of the main Central
Counterparty Clearing Houses

BME Clearing LCH Londres
Eurex LCH Paris

Activity during the year

Cecabank's Treasury Management Department has responded well to the new challenges. From the liquidity standpoint, there was a change in the source of business from securitization fund accounts, which moved away with the drops in ratings of previous years, to a more stable situation stemming from the depositary service activity, in a process which was efficiently adjusted over time and which has raised the daily operating volume in a sustained manner.

On rating our entity, the ratings agencies value three key aspects: compliance with our Strategic Plan, greater business stability and diversification, and comfortable compliance with the new regulatory liquidity and leverage ratios. As a result of this, Moody's upped its rating 4 notches on 17 July 2015, putting our rating at Baa2. In the course of 2015, a large number of counterparties reopened their lines to us, not only because of the improved perception of country-risk, but also because of our enhanced positioning and business consolidation as a wholesale bank. In addition, the central counterparty clearing houses have raised their operating limits with us.

Moreover, Cecabank worked even harder to attract new direct cross-sales customers amongst depositing entities and entities with which it had never had a commercial relationship. As a result, operations in currency with third parties, fixed income and repo operations increased.

In respect of currency operations, there was a change in technology as the former SICE price platform was replaced by a new, more technically advanced platform, which basically functions through the internet and speeds up and improves the service provided for our clients.



Derivatives operations. Cecabank is investing in reducing risk and the capital cost of these operations. In this respect, agreements were reached with members of the LCH clearing house for settlement and Cecabank will be taking part in the new Spanish clearing house for derivatives, created by Meff, which is expected to come on stream in 2016. In the future, clients will be able choose whether to settle transactions at the clearing house if they are members of it, which will mean a lower capital cost, or continue with bilateral guarantee contracts which are starting to produce differences in price and cost in comparison with the former method.

Spanish Treasury market maker for public debt. We continue to play the important role of Spanish Treasury market maker and we have added a price platform through Bloomberg where counterparties can find prices that can be executed in real time. In addition, we still take part in Spanish Treasury auctions, including syndicated issuances. Our exposure to other treasuries, such as Germany, Italy and USA, allows us to offer our services in these markets too.

Apart from State debt, we have also added the daily price in real time of over 200 eligible private fixed income bonds between regions, corporates and debentures. This is quite an important step for several reasons: the evolution of the business required it, it helps us to extend our range of national and international clients, who have access to our prices, and it projects us as an institution which plays a role in the market.

Treasury Management

Banknotes

Cecabank is the leader in the wholesale foreign banknote market in Spain and serves nearly all the country's financial institutions. It has extensive experience in logistics and securities transport, on both a national and international scale. Thanks to our logistics structure, we can offer customers a highly flexible, top quality service which adapts to their every need.

Activity during the year

In 2015 Cecabank received over 2,100 foreign banknote purchase and sales transactions per day and carried out the whole process of transport, handling and security.

Our 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.

Main figures

December 2015

■ *Leader in the wholesale foreign banknote market in Spain*

Purchase and sales of foreign banknotes

+ 2,100 transactions per day

Bank branches directly served by Cecabank

+15,000

03 Our Business Model

1. **Strategic lines** | Economic and regulatory environment | Building the future | Business lines
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Treasury Management

Treasury and Risk Support

The Treasury and Risk Services Centre provides services related to the support, maintenance and development of different applications for the following activities:

- /// *Treasury Front Office.*
- /// *Treasury Back Office.*
- /// Control of market and counterparty risk and calculation of management results.
- /// Operational Risk Management.
- /// Support for the banknote activity.

In addition, we provide integrated collateral management services for all types of collateral contracts in financial activities (*CSA, CMOF, GMRA, GMSLA and EMA*). We also communicate suspicious transactions for the identification and control of operations that might need to be communicated to the Spanish securities and exchange commission (CNMV) and we provide the EMIR service so that user entities can meet certain requirements established in the said regulation, along with clearing of OTC derivatives, communication of transactions to the registry and the application of techniques to reduce operational and credit risk.

The services provided by the Treasury and Risk Services Centre give all types of financial institutions, public administrations and corporates access to standard computer applications specializing in the different activities of a Trading and Risk Room, run by leading servers in the national and international markets. The corrective and evolutionary service provided guarantees their adaptation to changes in regulation and to new products developed in the markets.

Activity during the year

In 2015 the scope of the services provided increased in terms of both the number of users and the range of services provided.

In order to respond to the regulatory information requirements of entities using the Treasury and Risk Platform, a specific module has been developed to generate the outputs necessary to provide the information for preparing the statements for the Bank of Spain and for COREP and FINREP for the Treasury Division's activity.

In addition, the reporting service for the Trade Repository has been extended and includes the specific operations conducted by a number of corporates.

Main figures

December 2015

Operational Risk loss database

+ 1.5 million loss events

Leading Treasury and Risk Platform in Spain

20 financial institutions, public administrations and corporates

It manages collateral contracts for

10 entities

03 Our Business Model

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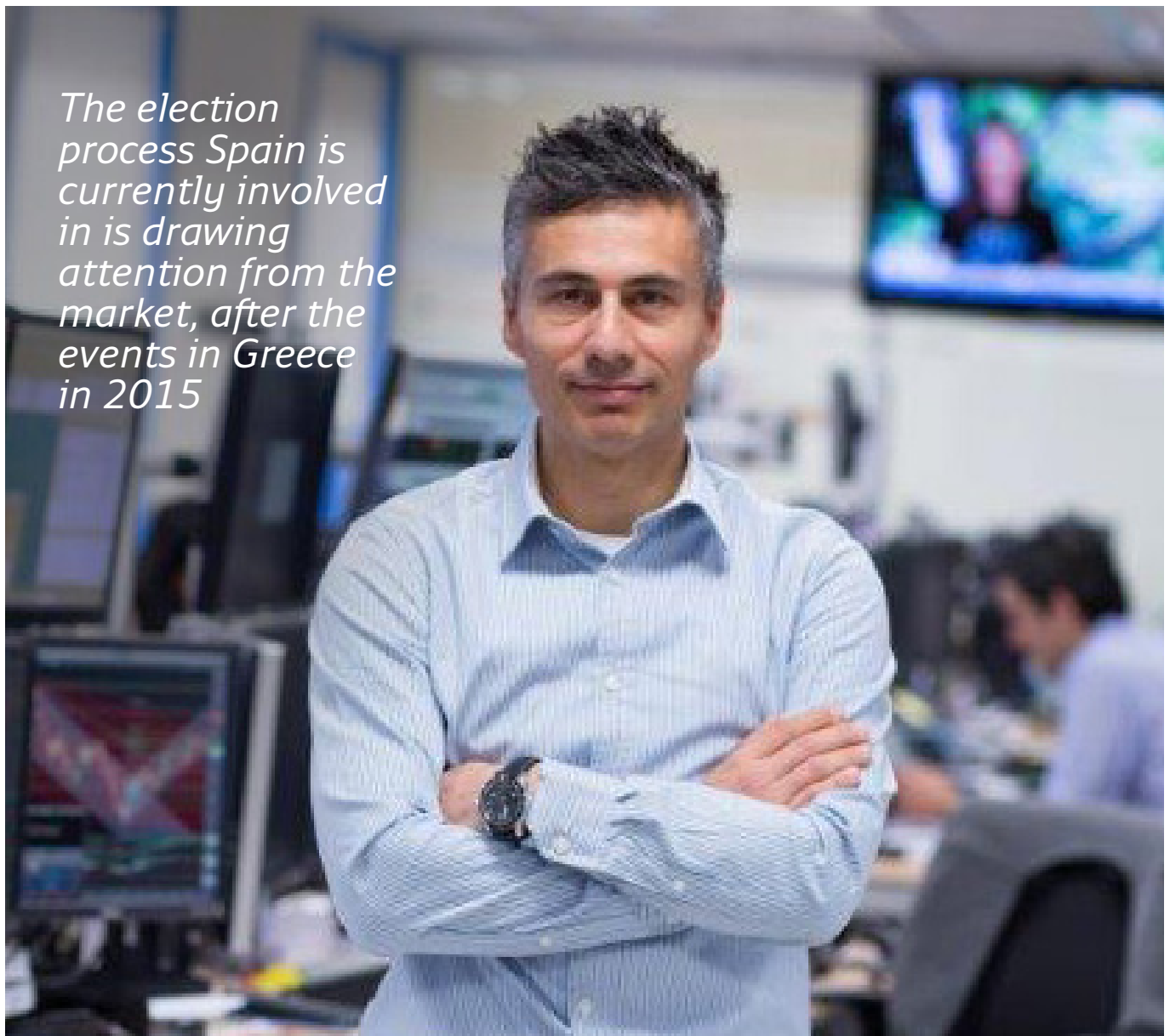
Treasury Management

Interview

Enrique David Velasco Moscardó
Manager of FX, sovereign risk and equities

 [View interview online](#)

BCE, inflation and economic growth



The election process Spain is currently involved in is drawing attention from the market, after the events in Greece in 2015

The downturn in raw materials, especially oil, has meant that economies closely related to this business have registered low growth rates

What are main factors affecting the markets?

Two mainly: oil and China. Both oil and China have marked the future of the markets. On the one hand, the downturn in raw materials, especially oil, has meant that economies closely related to this business have registered low growth rates and that their Central Banks have tried to fight this slack growth with more expansive monetary policies.

And then there's China. The transformation that China is trying to impose, i.e. moving from a foreign sector model to an internal consumption model, is taking longer than anticipated and its growth rates were notably affected.

The two problems are related. If there is to be solution in the short term, this would either come from an increase in raw materials prices or rapid growth of the Chinese economy that would take us back to the rates of around 7 per cent registered a few years ago.

How do you see the Spanish economic situation?

As regards the Spanish economy, we could say that 2015 was a fairly buoyant year with strong growth, although some economists believed it would be difficult to reach these rates. In my opinion, this is mainly due to the measures taken by the ECB which weakened the euro and favoured the Spanish economy's foreign sector and tourism, both elements our economy is very dependent on. Secondly, access to cheaper credit to foment internal consumption and, lastly, the geopolitical situation which meant that the flow of tourists was perhaps greater than

at other times. Everything came together – tail winds, as they say – to support these growth rates.

As regards uncertainties, the election process Spain is currently involved in is drawing attention from the market, after the events in Greece in 2015.

The outcome of this process will determine the reaction the markets have towards different products, bonds, equities, investor confidence...

What effect is the current monetary policy having on the banking system?

We can see that the ECB's interest rate cut is having very negative effect on banks mainly, with shrinking margins. It's clear that it is also even having an effect on ROEs which have dropped from over 10 per cent a few years ago to levels of around 3-4 per cent. Although it's also true that the ECB's measures aim to boost economic growth and if they finally bear fruit, then this will benefit the financial systems and, above all, banks.



Banking Services

Means of Payment

The main activity conducted by Means of Payment is the service for processing transactions with cards between entities and other means of payment systems. This implies that one card of the 10 million issued by one of the customer entities can operate on the service networks of other clients and entities belonging to other national or international systems. It also process the transactions conducted through the more than 8,000 ATMs and 159,000 POS terminals in the EURO 6000 network or through direct connections with major retail chains and virtual POS on e-commerce pages.

Moreover, Cecabank offers integrated operating management and processing services to Trionis which, in turn, provides exchange services and routing of operations made with cards worldwide.

Thanks to the above two activities and the fact that Cecabank has a bank licence, we clear and settle the transactions processed.

As added values, we also provide our own applications as a service for managing the issue of debit and credit cards. The whole life of a card is managed through these applications. We also offer applications for managing devices through which acquirer operations (POS and ATMs) can be conducted. These applications make it possible to manage all the devices of an entity which does not have its own management application.

In addition, we provide a series of value added services related to card issuance and acquisition, such as a solution based on the generation of virtual cards, gateways for devices to a processing node which resolves different problems such as remote management, PIN management, acquirer solutions for different types of businesses (POS, mobile POS, m-POs, virtual POS), solutions for bonding and loyalty-building, apps and payment wallets, amongst others. Moreover, we provide a service with specialized knowledge for managing disputes over transactions paid by card.

We are also specialists in specific advisory services related to payments by card, both technological payments (migration to EMV, migration to contactless and, in general, implantation of international standards) and to obtain the best practices for managing fraud, or for the development of the business.

Lastly, in line with the Spanish market's move towards contactless, the HCE technical infrastructure has been developed for payment through NFC mobile devices and for advisory services for the implantation of new wearable card formats.

Activity during the year

2015 was characterized by exploring new collaboration opportunities with other regions in the world, specifically Europe and Latin America, in order to increase diversification of products and clients, and innovation. Thus, since July 2015, we participate as active members in the Association of Latin American Means of Payment Networks.

As in previous years, we continue to obtain excellent results in the fight against fraud. Once again, the entities in the EURO 6000 system are the Spanish leaders in the detection and prevention of fraud in transactions conducted with cards. This is thanks to the efficiency of the bank's teams supported by the Espia system, operated by Cecabank.

As occurred in the past, VISA and MasterCard recognized Cecabank's full compliance with the security requirements established in the PCI DSS standard on their respective official websites. In accordance with the PCI Security Standards Council, this compliance was verified by an external auditor certified by the organization to conduct the corresponding auditing procedures.

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The major efforts made to rationalize computing activity resources and costs in previous years have produced a significant improvement in efficiency, which enabled us to drop tariffs for our customer entities. These reductions have become a constant target for the future.

Moreover, we worked on new models of support services for entities in the development of their business, and on designing a new multipurpose payment model based on mobile devices for P2P. We also managed to continue to export our technology advisory services for EMV, contactless and HCE to the Latin American market.

Lastly, in collaboration with EURO 6000, a tokenization platform was developed for payment with mobile devices in contactless mode, which is fully functioning, along with the MasterPass interface for payment through online wallets.

Main figures

December 2015

Transactions processed

598 million

With total average daily amounts settled

107 million euros

The network processes

Euro 6,000

Cards processed per year

10 million

Availability of the processing system of

99.9999%

We have formed part of the

Association of Latin
American Means of
Payment Networks

since July 2015



Banking Services

Business intelligence and new channels

Cecabank provides services related to remote channels for financial institutions, fund managers and insurance firms. In addition, it offers business intelligence services through operating data processing to obtain scorecards and reports on different areas of business. The object of all these services is to obtain economies of scale, which enable entities to distribute products and services through remote channels in the most efficient manner possible, make them frontrunners in technological development and provide them with tools that facilitate business management and growth.

Activity during the year

During the year, in the field of e-banking, Banco Caixa Geral was added to the e-banking service, continuing the extension of the e-banking service to new banks. Similarly, agreements were reached with other entities, such as Triodos and Caja Almedralejo for different services, thus extending the customer base in this business area.

In 2015 further progress was made in the development of the e-invoicing platform and it was reengineered and updated, apart from connecting it to new public administration entry points. Also during the year Caixabank was fully integrated into Cecabank's e-invoicing platform.

During the year, Cecabank developed its own platform for Immediate Payments and value services related to them, under the tradename EALIA. This evidences its desire to be a processor and facilitator of solutions for financial institutions which enable them to compete in equal conditions with internet companies and thus to undertake their own digital transformation. There are currently eleven entities using this service, which is open to the entire financial system as Cecabank aims to serve as many entities as possible.

Main figures

In 2015 the multi-channel e-banking platform which Channels places at its' clients disposal processed **700,951,484** important **financial transactions** for **1,966,874** users which operate on a monthly basis, with **availability of 99.96%**, weighted according to real traffic at each moment in time.

Mobile channel

169,904,527
 transactions through mobile
 handsets, up 34% on 2014

15,050,911
 SMS messages

Securities trades

148,267 securities trades using
 Cecabank's infrastructure through online banking,
 mobile banking and the office's own terminal

Bravo Project for Immigrant Remittances

24,7427
 remittances to their countries of origin

E-commerce

8,392,790
 ntransactions through Cecabank's virtual POS

E-invoicing

4,473,928 invoices issued

Pan-European debit platform

1,397,788 euros
 processed



Banking Services

Payment and Clearing Systems

Our banking services are services provided for banks and corporate clients for the integrated management of bank collections and payments, discount operations, payment confirmations and technical coverage of connectivity to SWIFT.

Global coverage of Payment Systems

The administration, supervision and settlement of bank transactions and retail payment instruments exchanged by an entity in the framework of national and international payment systems as a represented entity. Channelling and processing collections and payments in euros and foreign currencies for corporate clients.

Integrated discount management

Economic and administrative management of all the transactions for an entity's discounted notes, from collecting the data for the notes for settlement with the client until their application for collection.

Global confirming service

(FINVERSIÓN)

Administration of payment commitments (invoices) contracted by the bank's clients with their goods and services suppliers on a maturity date, through the operating-technical application called FINVERSIÓN which speeds up the financing or investment of both clients and suppliers.

Technical SWIFT coverage

Technical coverage connection service from an entity's or client's BIC code to the SWIFT network, which enables clients to use all the SWIFT services in the same way as if they had a direct connection to the SWIFT platform.

Activity during the year

In 2015 the processes of converting and adapting to the new SEPA payment instruments were completed in the fields of transfers and direct debits both with clients and with the entities represented. In this respect, the times of processing these operations were adapted and the settlement of SEPA was launched in the SNCE with the same day value. In addition, SEPA direct debits were integrated into the Discount platform as another type of document.

A large part of work centred on facilitating the addition of new investment and pension fund managers and their business in the field of the depositary as regards current accounts, collection and payment management and the exchange and settlement of participants' transfers.

Notable within Cecabank's activity as a central operating service provider is the joint management of the accounts of the Social Security's Treasury Department to serve customers. Likewise, it continued to provide service for the Temporary Joint Venture business, started by different Spanish financial institutions and Cecabank itself to manage the treasury of Loterías y Apuestas del Estado (LAE), with thousands of LAE accounts open, where Cecabank is the only manager.

Cecabank worked very hard to maintain the AENOR UNE EN ISO 9001 quality certification for services of exchange, clearing and settlement of collection and payment transactions (transfers, direct debits, fund transfers and advance credit payments) and to obtain the UNE-ISO/IEC 27001 certification for the information security management system for SEPA operations. These certifications form part of the culture of continual improvement and quality of service which Cecabank believes in and which is reflected in its Strategic Plan.

03 Our Business Model

1. **Strategic lines** | Economic and regulatory environment | Building the future | Business lines
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The notable position of Cecabank in providing collection and payment services for banks and corporate clients, based on a model orientated towards constant innovation, maximum efficiency and the generation of added value, is ratified by it obtaining the certification for the Quality Management System, in compliance with Standards UNE-EN ISO 9001 and ISO 27001.



Since February and July 2015 the Payment and Clearing Systems department has had these quality certifications, thus complementing the ones it had already obtained for the Securities Services business, in accordance with Cecabank's Strategic Plan of achieving excellence in the management of its processes and services provided.

In 2015 J.P. Morgan-Chase's branch in Spain was added as a new client in the representation service in the SNCE and the service provided for BNP Paribas Securities Services was extended to include the processing of SEPA direct debits.

Main figures

December 2015

Cross-border exchange of cheques/Currency clearance

138,250 cheques processed

SWIFT messages exchanged

1,494,129 transactions processed with Cecabank's BIC

1,056,528 transactions processed with other BICs

Non-SEPA fund movement orders (TARGET / EBA)

220,094 transactions processed

2,265,152 nominal value (in million of euros)

Exchange of SEPA transactions (EBA and SNCE)

591,460,367 transactions processed

354,988 nominal value (in million of euros)

Exchange of traditional transactions in the scope of the SNCE

47,174,574 transactions processed

127,909 nominal value (in million of euros)

Discounted notes

3,690,257

Notes entering

6,971

Nominal value (in millions of euros)

259,217

Notes deposited

752 nominal value (in million of euros)

Outstanding guarantees granted

23

Transactions processed

8.94 nominal value (in million of euros)

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Banking Services Financial Reporting

Pyramid provides our clients with full integrated coverage of the entire reporting cycle. Consequently, it is an end-to-end service, which starts with the regulatory analysis stemming from the publication of a reporting requirement from a regulatory body and ends with the physical remittance of the files, once all the information requested has been constructed and validated.

The service is built on four major pillars:

- The analysis, interpretation and resolution of doubts related to any regulatory requirement which it is mandatory to report to the corresponding regulatory body.
- Cooperation with the Bank of Spain, with the active participation of working groups created to harmonize and standardize the new requirements.
- A technology platform, whose task is the provision at source of the information requirements requested by the regulator (the most detailed information), the construction and parametrization of the statements (aggregated information) and all its validation and reconciliation processes. It is a modular platform. It is fully adapted to the needs of the different user entities and completely aligned with the EBA and its Data Model Point.
- Help with the presentation of the information, as Cecabank has its own infrastructure for data exchange (remittance gateway with the Bank of Spain).

Activity during the year

In 2015 we fulfilled the commitments to our clients and made the development necessary to make it possible to report through Pyramid the new information requirements from national and European regulators which came into force during the year, such as the EBA's Funding Plans and Supervisory Benchmarking Portfolio, Bank of Spain Circular 8/2015 on contributions to the DGF and CNMV Circular 1/2010.

Moreover, the implementation of an action plan to minimize and improve incident management was successfully completed and, in December, we obtained the AENOR ISO 9001 certification, evidencing the quality of service.

All of this was possible thanks to the hard work and involvement of the team behind Pyramid and to the participation of our clients, through continual requests for improvements and their constructive ideas on the quality of service.

Main figures in 2015

December 2015

Total Pyramid

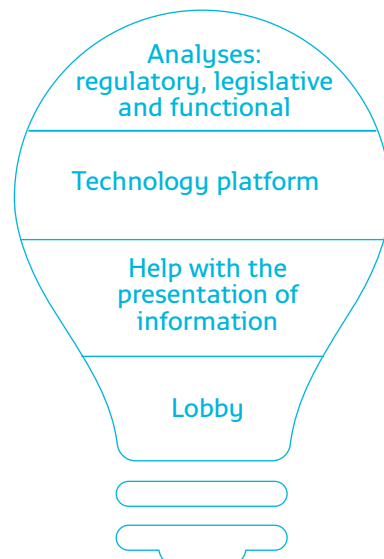
35 groups of entities as clients of the solution

51 user entities

Current clients

+28% in the course of 2015

Pillars of the reporting service



03 Our Business Model

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Banking Services

Interview

Ana Isabel Amaro Fernández

Assistant Manager of the Analysis and Reporting Service

 [View interview online](#)

Cecabank's response to the increase in regulation



What was the balance of Pyramid in 2015?

Pyramid is Cecabank's technology platform for the Integrated Analysis and Reporting Service. It is integrated, not only because it covers the different stages of regulatory reporting (analysis of regulations and technological, functional and regulatory advisory services), but also because, through Pyramid, we aim to meet all our clients' reporting needs for the different regulators (Bank of Spain, CNMV, ECB). All of this forces us to be up to date, to anticipate their needs and to make constant developments aligned with the continual changes in regulations in very demanding markets.

Consequently, 2015 started with major challenges, Extremely complex regulations came into force, from both national regulators (phase II of CIRBE) and international regulators (Corep and Finrep) and these coincided with an action plan for major improvements and changes in our platform in order to reduce incidents and enhance its management capacity. And we had to balance all of this with the commercial targets in Cecabank's strategic plan, which were based on the consolidation of customer entities (contracting new modules) and on opening up the domestic market by adding new clients from outside our traditional scope. In 2015 we met the challenges successfully.

We have enabled our clients to report the new requirements in the time and manner established and we have implemented the improvement plan foreseen and managed to minimize our volume of incidents. This has been valued very positively by customers, as is shown in the substantially higher marks for our capacity to manage incidents in the evaluation surveys.

As regards sales targets, we have offered our customers new services and obtained ten new clients, amongst which is the subsidiary of a foreign entity which operates in Spain. This could help us to move into the international market in the future.

Lastly, the highlight of the year was obtaining the AENOR ISO 9001 certification.

In short, we could say that the balance for 2015 was very positive, thanks to the work of our internal and external team, which is behind Pyramid, the participation of our clients, through continual requests for improvements and their constructive

ideas on the quality of service and the close relations and collaboration of the working groups at the Bank of Spain.

How are financial institutions responding?

The response is very positive. They view the platform as a benchmark in the market and they value its integrity and its flexibility for adapting to the needs of every type of entity. They also appreciate the advantages of the collaborative approach to the projects being developed, both from the standpoint of cost distribution and because knowledge, experiences and solutions to problems are shared, etc. This is reflected in the fact that 50% of the financial sector currently contracts our services and our clients continue to increase and in the opinions given in the quality surveys and at the Focus Group interviewed in 2015. These opinions are extremely important to us, not only because they assess the service received but also because they give us ideas about how we can improve.

The ISO certification is a guarantee of quality which makes it easier for us to present our services and attract new clients.

You said that Pyramid has just obtained the AENOR ISO 9001 certification for the Management System. What does this mean for Cecabank or what does it contribute?

You don't just have to be good - you have to show that you are. The certification is proof of work well done and a bid for continual improvement. We have to realize that to meet the strategic objective of opening up our market to non-traditional clients, the ISO certification is a guarantee of quality which makes it easier for us to

present our services and attract new clients.

Moreover, the certification process helps you to detect weaknesses and to draw up measures in order to achieve excellence. I would encourage all Cecabank's managers who work with clients to seek certification.

Obviously, the process requires extra work and, at the beginning, it may seem to be arduous and complicated. It forces you to process, measure and control all the tasks performed, which may initially seem difficult to reconcile with your present workload, but we have the support of Cecabank's Quality Department, which is behind you throughout the process, not only with its advice and help in preparing the necessary documents, but also in controlling and managing the agenda so that the standards can be met in the timeframe established. Obtaining the ISO certification for Pyramid is a success shared with the Quality team.

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Banking Services Regulatory Consulting

Cecabank is a benchmark in the market for financial regulation consulting and advisory services and is notable for:

- Its capacity to anticipate new regulations,
- Its great specialization
- The support of its own tools, such as the www.normativafinanciera.com webpage (a database which provides daily updated versions of all the regulations applicable to Spanish banks and the regulatory projects in progress and other important corporate information).

The main lines of the Consulting and Advisory Service are:

Access to the financial regulations website (for subscribed users) which shows the Spanish, EU and international financial regulatory provisions and projects and interbank regulations (interbank rules, decisions, etc.).

Daily news service by e-mail on alerts and notices with new national and international regulations, classified into published regulations and non-regulatory projects.

Monthly publication of reports which summarize the effects of the main standards and projects published.

Publication of reports which describe the regulations of special importance and impact for banks. This report

is written when the regulation is published and is issued before the publication of the monthly outlook.

Activity during the year

In 2105 the following projects were developed:

- **Project for adapting to the MiFID 2/MiFIR, PRIIPS regulation.** A multi-annual project to identify the impacts and measures banks need to take to fulfil the new requirements related to investor protection, transparency and communication of operations, stemming from the MiFID and PRIIPS regulations for related retail investment products and insurance-based investment products.
- **Project for adapting to the CRS or Common Reporting Standard model.** Project to support banks so that they can fulfil the obligations of identifying the residence of financial account holders for the automatic exchange of information in the field of taxation.



Banking Services

International business

Foreign network

Its main functions are as follows:

✓ Cecabank branch in London

The branch centralizes a large volume of payments and collections between Spain and the United Kingdom and consolidates its service as a correspondent bank for British banks and banks from other European countries and the United States.

✓ Frankfurt representative office

This office covers Germany and Switzerland and is extremely important as it is at the heart of the European financial system, with the head offices of 63 German banks and 150 international banks in Frankfurt, besides the European Central Bank, the German Federal Bank and the German Stock Exchange.

✓ Paris representative office

This office covers France and Benelux, with a considerable increase in its relations and collaborations with institutions of the level of ESMA (European Securities and Markets Authority) and ESG (European Savings Bank Group).

✓ Subsidiaries

The Hong Kong subsidiary centralizes all the foreign trade operations in Asia for bank customers for whom it provides the service and ensures and guarantees this type of transaction, as a result of its long experience, and offers economic advantages which are on a par with local banks.

The network has a support team in Madrid which deals with the operating treatment of means of payment in foreign trade and international guarantees, pension agreements and immigrant remittances. It also has a Customer Service which specializes in resolving incidents and providing advice for pensioners, beneficiary entities in Spain, senders' correspondent banks and payer entities.

International business

Cecabank has an extensive worldwide network of correspondents, which enables it to send and receive payments in any currency to any part of the world. Cecabank has long experience in this field and a large number of collaboration agreements with banks throughout the world, as is shown by the 648 million collection and payment transactions conducted in 2015.



Banking Services

Bank Training School

The mission of the Bank Training School (BTS) is to train professionals from the financial sector who are capable of adapting their entities to the new economic and financial environment

- ✓ Training in regulation and legislation
- ✓ Financial training
- ✓ Management training (skills, leadership, languages)

The School organizes courses aimed at perfecting and developing organizations' management teams. It exploits the knowledge and talent of sector professionals, seeking excellence and bringing them up to European standards.

Novelties

- ✓ Professional qualifications for specialized Business
- ✓ Training programmes, to which the latest technology has been added
- ✓ Agreements with prestigious Spanish universities to promote quality in training programmes

Activity during the year

The present national and international economic situation has led to the transformation of the School, which has adapted to an increasingly changing environment, capitalizing on its more than forty years' experience in providing training in the financial sector.

Collaboration agreements

On an international level, with a view to expanding the School's activity, it has reached collaboration agreements with the Chambers of Commerce in Frankfurt. At the same time, it collaborated with the Directorate General for the Spanish Police Force to develop financial investigation and economic delinquency programmes. At the national level, it signed a collaboration agreement with Madrid's Universidad Carlos III for the certification of professionals from the financial sector.

Quality training

In 2015, the BTS organized three events, with 230 participants more interested in the quality of these events than in the number of them.

During the year, over 15,000 students were trained, with a total of 350,000 of training in the three fields of knowledge: regulatory, financial and management.

As occurred in previous years, the agreements to pass on contents to train banks' staff through its own platform continued.

Notable amongst the programmes developed are the 4th and 5th editions of the Expert Programme on Internal Auditing for banks.

Training for Directors and Senior Management

In 2015 the BTS ran several general and specific training programmes aimed at these groups at national and international financial institutions.

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Sector Certifications

A novelty in this type of programme was the Programme for Financial Advisors for Businesses, developed at the School and attended by professionals from Cecabank and elsewhere.

Training in 2015

Online

+15,000 students

350,000 hours of training

In-Company

+600

hours of training, distributed between different courses

5th Edition

Expert Programme on Internal Auditing for banks

Presencial

3 events

+230 participants

Banking Services

Foreign Exchange Office

Cecabank's Foreign Exchange Office buys and sells foreign banknotes to the public. It has some 40 currencies immediately available in all kinds of denominations and amounts, offers top quality banknotes at competitive prices and has long opening hours.

Financial information

At the end of 2015, Cecabank had 11,982 million euros in assets and a CETI ratio of 25.33 per cent

Activity

Cecabank, S.A. Balance Sheet as of 31 December 2015 and 2014 (thousands of euros)

Activo	2015	2014*
1. Cash and balances at central banks (Note 5)	61.560	196.387
2. Financial assets held for trading (Note 6.1)	2.560.723	2.832.794
2.1 Loans and advances to credit institutions	-	-
2.2 Loans and advances to customers	-	-
2.3 Debt instruments	1.135.252	1.046.083
2.4 Equity instruments	63.160	67.867
2.5 Trading derivatives	1.362.311	1.718.844
Memorandum item: Loaned or advanced as collateral	309.418	219.885
3. Other financial assets at fair value through profit and loss (Note 6.2)	2.786.463	3.624.938
3.1 Loans and advances to credit institutions	2.698.393	2.748.641
3.2 Loans and advances to customers	29.954	876.297
3.3 Debt instruments	-	-
3.4 Equity instruments	58.116	-
Memorandum item: Loaned or advanced as collateral	332.398	833.752
4. Available-for-sale financial assets (Note 7)	4.202.012	2.585.344
4.1 Debt instruments	4.112.932	2.523.149
4.2 Equity instruments	89.080	62.195
Memorandum item: Loaned or advanced as collateral	716.426	296.605
5. Loans and receivables (Note 8)	2.035.666	1.355.848
5.1 Loans and advances to credit institutions	1.226.997	923.917
5.2 Loans and advances to customers	767.445	389.102
5.3 Debt instruments	41.224	42.829
Memorandum item: Loaned or advanced as collateral	38.673	-
6. Held-to-maturity investments	-	-
Memorandum item: Loaned or advanced as collateral	-	-
7. Changes in the fair value of hedged items of portfolio hedges of interest rate risk	-	-
8. Hedging derivatives (Note 9)	222	19
9. Non-current assets held for sale (Note 10)	18.487	18.504
10. Investments (Note 11)	416	867
10.1 Associates	-	312
10.2 Jointly controlled entities	-	451
10.3 Group entities	416	104
11. Insurance contracts linked to pensions	-	-
13. Tangible assets (Note 12)	53.363	53.232
Property, plant and equipment	52.375	52.208
For own use	52.375	52.208
Other assets leased out under operating leases	-	-
Assigned to welfare projects	-	-
Investment properties	988	1.024
Memorandum item: Acquired under a financial lease	-	-
14. Intangible assets	83.865	39.264
14.1 Goodwill	-	-
14.2 Otro activo intangible (Nota 13)	83.865	39.264
15. Tax assets	128.172	124.116
15.1 Current	535	226

(*) Presented solely and exclusively for the purposes of comparison.
 Notes 1 to 41 and Appendices I to IV of the accompanying Notes to the Financial Statements form an integral part of the balance sheet as of 31 December 2015.

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15.2 Deferred (Note 20)	127.637	123.890
16. Other assets (Note 14)	51.697	31.685
Total assets	11.982.646	10.862.998

Memorandum accounts

Contingent liabilities (Note 27.1)	76.982	72.750
Contingent commitments (Note 27.3)	412.074	724.862

Liabilities	2015	2014*
1. Financial liabilities held for trading (Note 6.1)	2.273.135	2.267.416
1.1 Deposits from central banks	-	-
1.2 Deposits from credit institutions	-	-
1.3 Customer deposits	-	-
1.4 Marketable debt securities	-	-
1.5 Trading derivatives	1.327.114	1.661.534
1.6 Short positions	946.021	605.882
1.7 Other financial liabilities	-	-
2. Other financial liabilities at fair value through profit or loss (Note 6.2)	1.109.908	1.365.643
2.1 Deposits from central banks	-	-
2.2 Deposits from credit institutions	675.885	692.386
2.3 Customer deposits	434.023	673.257
2.4 Marketable debt securities	-	-
2.5 Subordinated liabilities	-	-
2.6 Other financial liabilities	-	-
3. Financial liabilities at amortized cost (Note 15)	7.256.944	5.941.940
3.1 Deposits from central banks	-	-
3.2 Deposits from credit institutions	1.181.969	1.532.528
3.3 Customer deposits	5.829.642	3.922.701
3.4 Marketable debt securities	-	-
3.5 Subordinated liabilities	-	-
3.6 Other financial liabilities	245.333	486.711
4. Changes in the fair value of hedged items of portfolio hedges of interest rate	-	-
5. Hedging derivatives (Note 9)	4.418	6.073
6. Liabilities associated with non-current assets held for sale	-	-
8. Provisions	210.378	196.268
8.1 Provisions for pensions and similar obligations (Note 35)	91.094	84.498
8.2 Provisions for tax and other legal contingencies	-	-
8.3 Provisions for contingent risks and commitments (Note 16)	16	16
8.4 Other provisions (Note 16)	119.268	111.754
9. Tax liabilities (Note 20)	44.214	52.938
9.1 Current	4.376	3.077
9.2 Deferred	39.838	49.861
11. Other liabilities (Note 14)	112.714	101.007
12. Capital repayable on demand	-	-
Total liabilities	11.011.711	9.931.285

Equity

1. Own funds	901.434	837.894
1.1 Capital	112.257	112.257
1.1.1 Registered capital (Note 18)	112.257	112.257
1.1.2 Less: Uncalled capital	-	-
1.2 Share premium (Note 18)	615.493	615.493
1.3 Reserves (Note 19)	96.522	55.659
1.4 Other equity instruments	-	-
1.4.1 Equity component of compound financial instruments	-	-
1.4.2 Non-voting equity units and associated funds	-	-
1.4.3 Other equity instruments	-	-
1.5 Less: Treasury shares	-	-

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1.6 Income	77.162	54.485
1.7 Less: Dividends and remuneration	-	-
2. Valuation adjustments	69.501	93.819
2.1 Available-for-sale financial assets (Note 17)	61.241	87.779
2.2 Cash flow hedges (Note 17)	-	-
2.3 Hedges of net investments in foreign operations	-	-
2.4 Exchange differences	-	-
2.5 Non-current assets held for sale	-	-
2.7 Other valuation adjustments (Note 17)	8.260	6.040
Total equity	970.935	931.713
Total equity and liabilities	11.982.646	10.862.998

Income Statement

Cecabank S.A. Income Statement for the financial years ended as of 31 December 2015 and 2014 (thousands of euros)

	Ingresos / (Gastos)	
	2015	2014*
1. Interest and similar income (Note 28)	67.414	93.951
2. Interest and similar charges (Note 29)	(20.618)	(21.492)
3. Remuneration of capital having the nature of a financial liability	-	-
A. Net interest income		
4. Return on equity instruments (Note 30)	5.474	29.717
5. Fee and commission income (Note 31)	128.130	108.351
6. Fee and commission expense (Note 32)	(16.251)	(18.666)
8. Net gains (losses) from financial operations (Note 33)	20.375	(34.149)
8.1 Held for trading	8.371	(50.233)
8.2 Other financial instruments at fair value through profit or loss	(1.215)	(63)
8.3 Financial instruments not measured at fair value through profit or loss	15.588	16.250
8.4 Other	(2.369)	(103)
9. Exchange differences (net)	51.754	36.500
10. Other operating income (Note 34)	46.694	45.803
11. Other operating expense (Note 37)	(4.251)	(711)
B. Gross income		
12. Administrative expenses	(115.585)	(119.921)
12.1 Personnel expenses (Note 35)	(52.773)	(54.760)
12.2 Other general administrative expenses (Note 36)	(62.812)	(65.161)
13. Depreciation and amortization (Note 39)	(49.688)	(39.696)
14. Provisions (net) (Note 16)	(32.251)	(19.291)
15. Impairment losses on financial assets (net) (Notes 22 and 38)	19.291	14.765
15.1 Loans and receivables	20.204	18.867
15.2 Other financial instruments not measured at fair value through profit or loss	(913)	(4.102)
C. Net operating income		
16. Impairment losses on other assets (net)	-	-
16.1 Goodwill and other intangible assets	-	-
16.2 Other assets	-	-
17. Gains (losses) on disposal of assets not classified as non-current assets held for sale (Note 11)	4.988	(1)
18. Negative goodwill on business combinations	-	-
19. Gains (losses) on non-current assets held for sale not classified as discontinued operations	-	-
D. Profit before tax	105.476	75.160
20. Income tax (Note 20)	(28.314)	(20.675)
21. Mandatory transfer to welfare projects and funds	-	-
E. Profit for the year from continuing operations	77.162	54.485
22. Profit (Loss) from discontinued operations (net)	-	-
E. Profit for the year	77.162	54.485

* Presented solely and exclusively for the purposes of comparison.

Notes 1 to 41 and Appendices I to IV of the accompanying Notes to the Financial Statements form an integral part of the income statement for financial year 2015.

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Capital base

At the end of financial year 2015 Cecabank's solvency ratio was of 25.33%, with 99.4% of capital being common Tier 1 capital, i.e. the Tier 1 ratio stood at 25.18%.

A key element in management was and is to maintain a sound capital structure in terms of quantity and quality.

Cecabank's Board of Directors established a minimum capital ratio of 14%. This ratio is established in terms of Common Equity Tier 1 (CET1). In addition, the Risk Tolerance Framework establishes a wide margin for this ratio which the entity must use for operating in normal situations. Both levels are currently easily surpassed.

Cecabank's comfortable solvency position enables it to cover present and future capital requirements and the risks not considered in Pillar 1. Moreover, these ratios are lower than would be obtained by applying the solvency regulations without transitory clauses (fully loaded Basel III).

Ratings

As of 31 December 2015, the ratings Cecabank had been given by the international rating agencies, Fitch Ratings, Moody's y Standard & Poor's, are as follows:

Cecabank				
Agency	Short term	Long term	Outlook	Date
Moody's	P-2	Baa2	stable	17/06/2015
Fitch	F-2	BBB-	stable	04/11/2015
S&P	A-2	BBB	stable	02/02/2016

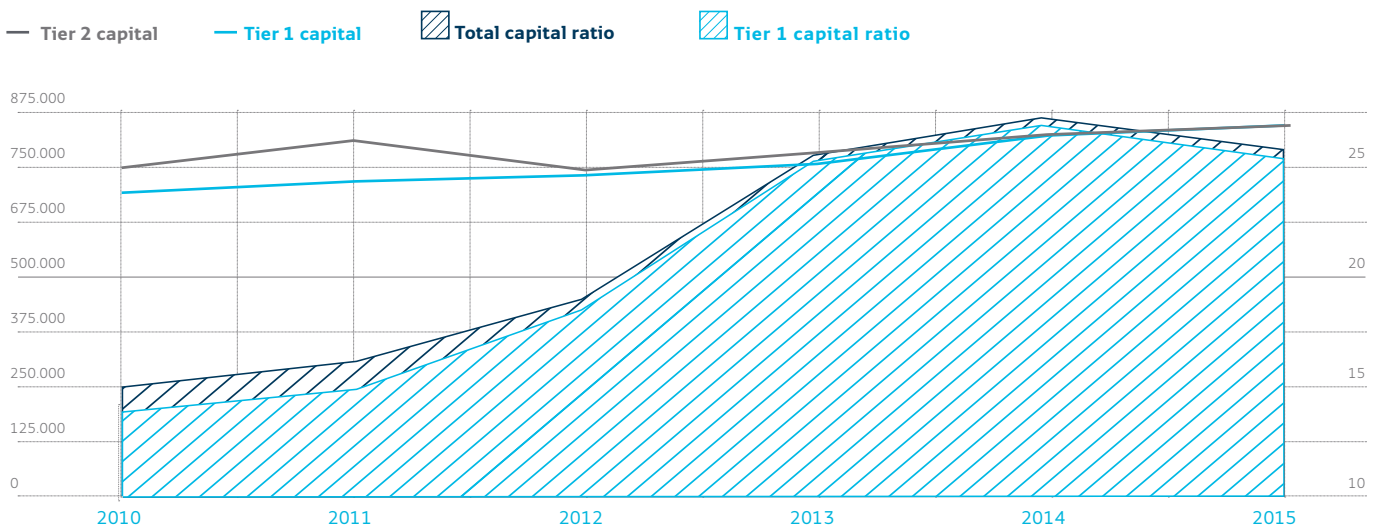
The strategic reorientation and the success of its implementation were key factors in the upgrading of the different agencies' credit ratings and now all three ratings are Investment Grade. In general, when rating our bank, the agencies highlighted the success of the following as positive elements:

- The liquidity position
- The strategic reorientation of the bank
- The conservative risk profile

CET 1
25.33%



Tier 1 capital



Risk Management

The risk function at Cecabank

Cecabank's Risk Division responds to the principle of solvency as the culture.

Main risks in Cecabank's activity.

The risks which may be incurred in Cecabank's activity are classified as



Cecabank seeks to maintain a low-average risk profile which, together with prudent rigorous management, makes it possible to maintain strong capitalization and good solvency levels.

In order to continue to improve, Cecabank has furthered the development of corporate governance, following the lines of the best international practices, as a key element in risk management. The Board of Directors and its committees have played a major role in this respect, as they are responsible for establishing tolerance levels and monitoring the risk profile.

Structure and Organization

From the perspective of defining risk tolerance, monitoring the implementation of management policies and monitoring the risk profile, Cecabank has set up a support structure and a reporting system, which are described in the organizational chart below:

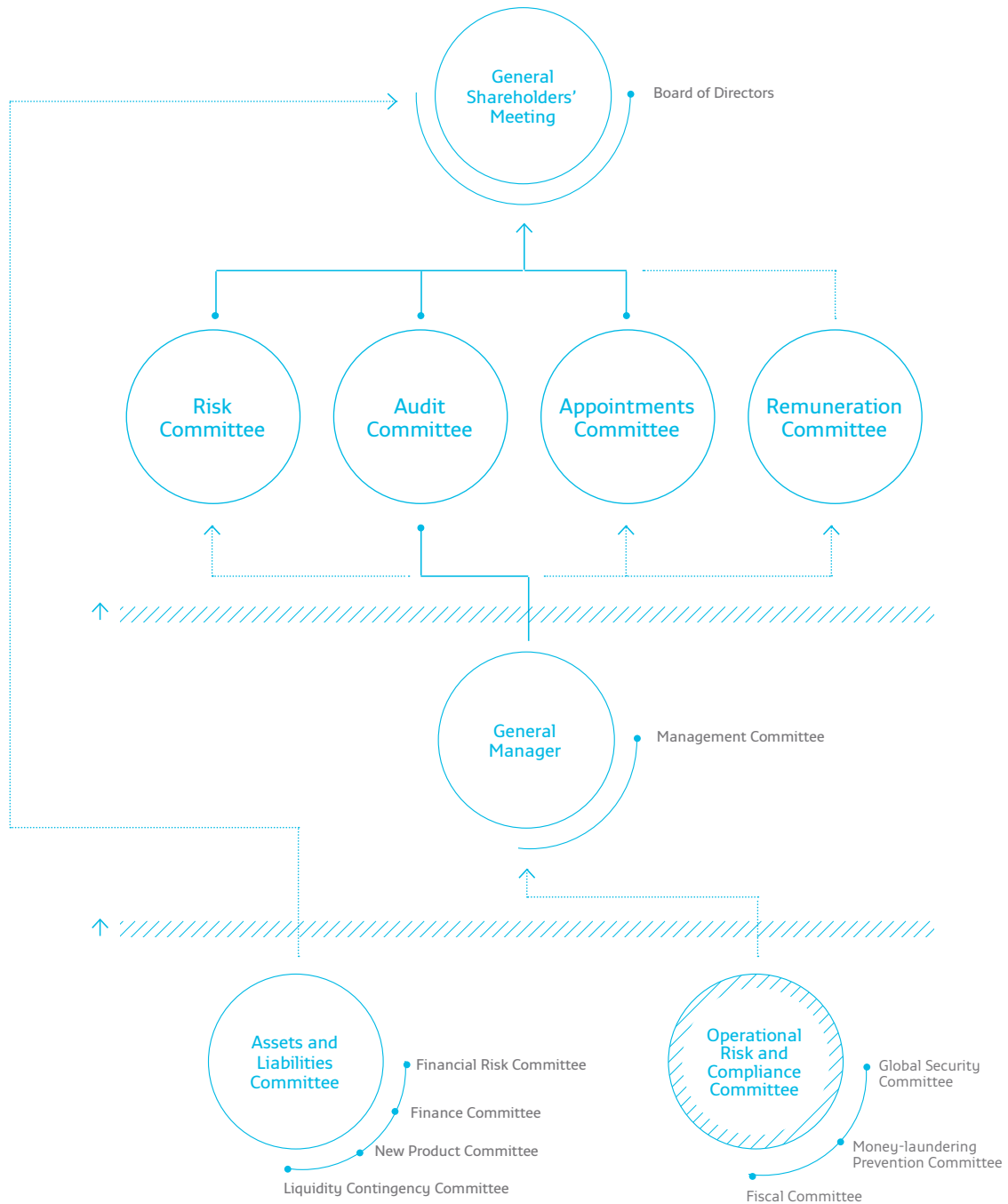
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Most important bodies

From the risk management perspective

—●— Hierarchical dependence
 - - - - -> Reporting line



Apart from the Board and its Committees, the following committees, in which Senior Management participates, are important to governance, designing policies and monitoring risks

The Assets and Liabilities Committee (ALC)

The purpose of the Assets and Liabilities Committee (ALC) is to approve, inform, manage, monitor and control the entity's financial risks. With regard to risks, it works within the Risk Tolerance Framework, agreed upon by the Board at the proposal of the Risk Committee.

28 meetings in 2015

The Financial Risk Committee

The object of this committee is to ensure that the entity's exposure to risk falls within the tolerance levels established by the Board and the ALC, to permanently adapt risk management procedures to the increasing sophistication of the financial market and to align them with capital requirements at each moment in time and also to permanently adapt valuation methods to the best market practices and the needs of the entity.

11 meetings in 2015

The Investment Committee

The object of the Operating and Finance Division's Investment Committee is to address the division's ordinary management, paying special attention to the activity of the Finance Division, in accordance with the policies approved by the Board of Directors and the guidelines given by the ALC, reporting back to it with the information necessary for decision-making.

22 meetings in 2015

The New Product Committee

This committee's mission is to ensure that the bank has full knowledge of the risks incurred in operations in the markets and with financial products. It has the necessary infrastructure for its management, control and administration. It furthers the standardization of the financial products the entity works with, from the perspective of systems and procedures.

1 meeting in 2015

The Liquidity Contingency Committee

This committee evaluates possible liquidity crisis situations, decides whether the contingency plan should be activated, in the light of the quantitative and qualitative indicators and, where relevant, it classifies the degree of intensity of the crisis. It evaluates the specific reason behind the crisis situation and assesses its possible duration and the seriousness of the liquidity problem. It coordinates the divisions involved in executing the plan and makes the necessary adjustments to it to bring it in line with the market situation.

11 meetings in 2015

The Operational Risk and Compliance Committee

This committee's task is to promote the implantation of control of the compliance risk at the entity. It also analyses the information which it receives from the Operational Risk unit about the management of operational risk and provides procedures and systems for transferring risk (insurance, guarantees, outsourcing and others) in order to mitigate latent operational risks.

3 meetings in 2015

Risk Management

Interview

Nieves Torres

Manager of Risk Analysis and Control

[▶ View interview online](#)

Prudence, sound capitalization and ample liquidity

Our risk model was reviewed by external consultants who ratified its suitability



What aspects of Cecabank’s risk functions have been strengthened in the past few years?

Cecabank, which has always believed in prudent management, has assumed the following risk management principles, which are aligned with its strategic plan and its business model:

- Firstly, it has established internal governance which promotes the integration of the risk culture throughout the entity and always involves senior management.
- Moreover, it has furthered the independence of risk functions in the different business divisions.
- It conducts an evaluation to anticipate all the risks.
- It has support infrastructures and robust proportionate methods to measure, monitor and control the risks assumed.
- Cecabank establishes its risk strategy, risk tolerance levels and the risk management framework in advance.
- In addition, it has an information framework which enables the different governing bodies to monitor risks and assess the suitability of the investment and risk policy.
- Lastly, Cecabank has set up remuneration policies which include incentives for maintaining the risk profile.

Another important event for Cecabank in 2015: the upgrade of Moody’s rating by four notches

From the risk perspective, what events marked 2015?

Generally speaking, Cecabank’s risk profile remained stable throughout the year, as occurred in previous years.

The bank has increased its exposure to credit risk slightly, with notable investment in Spanish public debt and high quality fixed income assets.

Sector specialization and counterparties remained at the same levels.

Non-financial risk (operational, regulatory compliance and reputational risks) maintained a low profile, considering the volumes of losses registered.

Moreover, because of the prudence with which the risk of Securities Services activities is considered, we see the operational risk of this activity to be low to average.

Exposure to market risk was similar to in the previous year and it benefited from less volatile markets, although volatility increased again at the beginning of 2016.

What’s more, our market risk model was reviewed by external consultants who ratified its suitability.

The interest rate risk increased slightly as we capitalized on market conditions, but it still remains low to average. On the other hand, the liquidity risk fell substantially. The cash surpluses existing in the markets were accompanied by stable customer balances in the Securities

Services business. All of this, together with prudent management, has produced very high liquidity indices.

But what do external analysts think of Cecabank?

Here we should highlight another important event for Cecabank in 2015: the upgrade of Moody’s rating by four notches, taking the rating up to investment grade. This aligns all the bank’s credit ratings at level 3, the same as the rating for Spain.

Some of the strong points Cecabank’s rating agencies highlight are its sound franchise in the domestic securities services business, which is a stable source of income, its sound capitalization, which is in line with its risk profile, and its comfortable liquidity position.

Lastly, in line with the goal of enhancing corporate governance and maintaining the risk profile described earlier, Cecabank defined a “Risk Tolerance Framework”.

In this document, Cecabank’s appetite for risk is defined, i.e. the quantity and type of important risks which it is considered reasonable to assume in the execution of the business strategy, in such a way that ordinary business can continue as normal if unexpected events occur.

It also aims to give an aggregate view of the bank’s risk profile by using quantitative and qualitative metrics.

This also enables the governing bodies and senior management to assess the coherence between the present and forecast risk profile for strategic and business plans and the maximum risk limits established

Another important event for Cecabank in 2015 was the upgrade of Moody’s rating by four notches, taking the rating up to investment grade. This aligns all the bank’s credit ratings at level 3, the same as the rating for Spain.

Some of the strong points Cecabank’s rating agencies highlight are its sound franchise in the domestic securities services business, which is a stable source of income, its sound capitalization, which is in line with its risk profile, and its comfortable liquidity position.

What are the main challenges for the risk function in the coming years?

In my opinion, the main challenges facing the risk functions at financial institutions in general and Cecabank in particular in the coming years are:

- Adding all the regulatory changes to internal procedures and implementing them, and adapting to the new supervisory framework.
- Identifying and anticipating emerging risks, stemming from the economic, geopolitical and regulatory context and from digital innovation and change.

Here, because of the importance it might have for an entity like ours, I would highlight the identification of risks linked to the development of new market infrastructures, such as central counterparties and clearing houses in different segments like securities, treasury products and means of payment.

And, lastly, the most important challenge would be:

- To reconcile the risk function with the objectives of the different business units, which are under a great deal of pressure because of the low yields in the sector and all of this in an uncertain macro environment and a very competitive economic environment.

04

Annual accounts

1. **Cecabank, S.A.** | Individual Annual Accounts, management report and audit report for financial year 2015
2. **Cecabank S.A. and Subsidiaries in the Cecabank group** | Consolidated Annual Accounts, management report and audit report for financial year 2015

Prudence and solvency are our hallmarks and the elements underpinning the future growth of our identity.



