cecabank

2016
PILLAR 3
DISCLOSURES

2016
Pillar 3 Disclosures

01
General information requirements 04

1.1. Introduction 04
1.2. Conceptual definitions and description of the Cecabank, S.A. Consolidable Group of Credit Institutions 05
1.3. Other general information 05

02
Risk Management Policies and Objectives 07

2.1. Corporate Governance of the risk function 09
2.1.1. Responsibilities of the governing bodies 11
2.1.2. Policies for selecting Board Members and Diversity of the Board of Directors. 12
2.1.3 . Supporting structure for the Board of Directors 13
2.1.4. Risk management departments 13
2.1.5. Internal Audit of Risks 16

03
Capital 17

3.1. Eligible capital 19
3.1.1. Tier 1 Capital 19
3.1.2. Tier 2 Capital 21
3.2. Minimum Capital Requirements 21
3.2.1. Minimum Capital Requirements for Credit Risk 22
3.2.2. Capital Requirements for Position Risk of the trading portfolio 24
3.2.3. Minimum Capital Requirements for Foreign exchange risk and gold position risk 25
3.2.4. Capital Requirements for Operational Risk 25
3.2.5. Capital Adequacy assessment procedures applied 25

04
Credit and Dilution Risks 26

4.1. Credit risk exposure on 31st December 2016 27
4.2. Geographical and counterparty distribution of exposures 28
4.3. Residual maturity of the exposures 28
4.4. Counterparty credit risk 29
4.4.1. Credit derivatives 29
4.4.2. Impact of collateral in the case of a reduction in the bank's credit rating 29
4.5. Concentration risk 30
4.6. Impaired exposures 30
4.7. Variation during the 2016 financial year in losses through credit risk impairment and provisions for risks and contingent commitments for credit risk 31
4.8 Credit rating agencies used 32
4.8.1 General description of the process of assignment of public security issue credit ratings to comparable assets 32
4.8.2 Risk-weighting exposure determined by the risk assessment of external rating agencies. 32
4.9 Securitisation transactions 33
4.10 Credit risk mitigation techniques 33
4.11 Encumbered assets 35

05
Information on the Market Risk of the Trading Portfolio of Financial Assets held for trading 36

06
Information on Equity Instruments not included in the Trading Portfolio of Financial Assets held for trading 38

07
Capital Requirements for Operational Risk 40

08
Interest Rate Risk in positions not included in the Trading Portfolio 42

09
Structural Liquidity Risk 45

10
Leverage 47

11
Information on remuneration 49

11.1 Remuneration of Cecabank personnel 50
11.1.1. Remuneration Committee 50
11.1.2. General principles of the remuneration policy 51
11.1.3 Risk-adjusted group identified 51
11.1.4 Relationship with the bank's profit 52
11.1.5 Characteristics of the remuneration system of the identified group 52
11.1.6 Ratio between fixed and variable remuneration 54
11.1.7 Profit-related criteria on which the right to shares, options or variable components of remuneration are based 54
11.1.8 Main parameters and purpose of the variable remuneration plans 54
11.1.9 Aggregate quantitative information on remuneration by area of activity of the identified group 55
11.1.10 Aggregate quantitative information on remuneration of the identified group and members of the Board of Directors 56

Anexos 58

ANNEX I: Risk Management Policies and Objectives 59
1. Credit Risk 59
2. Risks associated with the trading portfolio 62
3. Operational risk 66
4. Regulatory compliance risk 70
5. Risk in equity instruments not included in the trading portfolio 70
6. Interest rate risk in the Banking Book 71
7. Liquidity Risk 72
8. Other Risks 74
8.1 Reputational risk 74
8.2 Business risk 74

ANNEX II: Definitions of Default and “Impaired Positions” and Criteria Applied to establish the amount of Impairment Losses 76

ANNEX III: Composition of Cecabank's Committees 78

ANNEX IV: Total amount of the risk exposure 80

ANNEX V: Information on own funds (phase-in and fully loaded) 81

ANNEX VI: Conciliation of the own fund items with the audited financial statements 83

ANNEX VII: Conciliation of the measurement of the total exposure corresponding to the leverage ratio and financial statements 84

01
GENERAL INFORMATION REQUIREMENTS

1.1 Introduction 05

1.2 Conceptual definitions and description of the Cecabank, S.A. Consolidable Group of Credit Institutions. 05

1.3 Other general information 06

01. GENERAL INFORMATION REQUIREMENTS

1.1 Introduction

The objective of this document is to provide information for the market regarding all relevant aspects connected with the financial status and the activity of the Cecabank Group (hereinafter, 'the Group' or 'the Bank') and, in particular, its risk profile. This ensures compliance with Article 85 of Act 10/2014 on the regulation, supervision and solvency of credit institutions.

In accordance with the Transparency Policy, this document was approved by the Cecabank Board of Directors itself at its meeting on 22nd March 2017, at the proposal of the Risk Committee.

The information to evaluate the institution's risk, market strategy, risk control, internal organisation and solvency situation, included in this report has been prepared by Cecabank in line with the provisions of Part Eight of the Regulation EU 575/2013 and further developments of this regulation. In accordance with the same regulation, information on Cecabank remuneration is also included.

Article 435(1)(f) of Regulation EU 575/2013 requires that the Board of Directors of credit institutions approves the description of the general risk profile and the explanation of the overview of internal risk management, which must be included as part of Pillar 3 information. Approval of this document by the Board as previously mentioned covers this requirement, and the information requested can be found in the various subsections of this document.

Certain information required by the regulations in force for inclusion in this Report is presented, in accordance with said regulations, by reference to the consolidated annual accounts of the Group for the 2016 financial year, as it is contained therein. Along with the annual accounts, these "Pillar 3 Disclosures", can be found at Cecabank's website (www.cecabank.es).

1.2 Conceptual definitions and description of the Cecabank, S.A. Consolidable Group of Credit Institutions

Information set out in this report corresponds to the Consolidable Group of Credit Institutions the parent entity of which is Cecabank, S.A. (hereinafter, Cecabank).

There are currently no differences between the consolidation perimeter or consolidation methods applied between the information contained in this report and the annual accounts defined in accordance with the terms of paragraph 3 of Rule 3 of Bank of Spain Circular 4/2004, of 22nd December 2004:

In the generation of the consolidated annual accounts of the Group Cecabank, all dependent companies were consolidated by application of the full consolidation method, and all of them are considered consolidable by virtue of their activity.

In accordance with the above criteria, below there is a list of the dependent companies of the Group on 31st December 2016 , which, for the purposes of the generation of the consolidated information thereof, were subject to the overall integration method:

Company name

Cea Trade Services Limited. A company created in 2004 with headquarters in Hong Kong whose purpose is to promote the provision of Foreign Trade services. It is 100% owned by Cecabank.

Servipagos, S.A.U. Spanish company incorporated in 2014 to provide technical services in the field of payments. It is 100% owned by Cecabank.

Trionis S.C.R.L. A Belgian company incorporated in 2008 as a result of the transformation of the interbank processing business of Eufiserv. Its activity consists of the development and maintenance of international means of payment operations. It is 78.6% owned by Cecabank.

1.3 Other general information

On 31st December 2016, there is no material, practical or legal impediment of any kind to the immediate transfer of equity for the reimbursement of liabilities between dependent entities and Cecabank. Neither is there any circumstance which would make any such impediments foreseeable in the future.

On 31st December 2016, the Economic Group and the Consolidated Group of Cecabank are identical.

[1] The most significant financial data of these companies can be found in the annual accounts of the Group.

02
RISK MANAGEMENT POLICIES AND OBJECTIVES

2.1 Corporate Governance of the risk function 09

2.1.1 Responsibilities of the governing bodies 11

2.1.2 Policies for selecting Board Members and Diversity of the Board of Directors. 12

2.1.3 Supporting structure for the Board of Directors 13

2.1.4 Risk management departments 13

2.1.5 Internal Audit of Risks 16

2. POLÍTICAS Y OBJETIVOS DE GESTIÓN DE RIESGOS

The Board of Directors of Cecabank (hereinafter, the Board) establishes the corporate objectives of the bank and has the highest responsibility regarding the risks it incurs during the undertaking of its activities. It is therefore this body that establishes the general policies with regard to the assumption of risks. Likewise, the Board is the driving force in the corporate risk culture, which focuses on guaranteeing efficient internal control systems and rigorous and complete risk management and measurement processes.

To assist the Board to fulfil its risk responsibilities regarding the maintenance of the risk profile and the implementation of the policies agreed, it has established a supporting structure and a reporting system. This structure is described in the following sections.

The risk management philosophy is based on rigorous criteria of prudence, in a manner consistent with commercial strategy, aiming to ensure the efficient use of the capital assigned to the business units. The results of application of this philosophy are seen in a highly prudent risk profile, in particular with regard to high levels of solvency and a comfortable liquidity position.

The Board establishes the type and intensity of risks which it deems reasonable to assume in order to achieve corporate objectives. The definition and annual updating of this risk appetite are set out in the Risk Tolerance Framework, as well as in the general policies in each case, always subject to approval by the Board itself. It is also the responsibility of the Board to monitor the effective risk profile and to ensure that both are consistent. It is supported in this regard by the work performed by the Risk Committee.

In order to achieve its business objectives the Board of Directors assumes that Cecabank maintains a conservative risk profile at all times, allowing it to reasonably to anticipate that losses produced by the implementation of the risks, even in stress situations, can be withstood within the normal operations of the bank, without permanently affecting the capital and liquidity objectives.

Alongside this quantitative definition of the desired risk profile, the Board establishes tolerance levels with quantitative metrics which determine the risk appetite. These are defined as follows:

- For each relevant risk identified, the maximum losses that the bank is prepared to assume during the course of its business are established. The definition is established in terms of forward-looking measures which serve to anticipate any losses which might be registered, if the risks were to materialise, but also in terms of the maximum losses tolerated (Annex I to this document provides greater detail as to the metrics employed). These metrics relate to the income statement and the available capital base, for the aforementioned purpose of ensuring that, in the event of losses, they can be withstood within the normal operations of the bank;
- The minimum available liquidity position must allow for ample compliance with all the bank's commitments, incorporating a safety margin to ensure that unexpected situations can be handled at any time.
- The solvency levels which the Board intends for the bank are substantially above the regulatory requirements. This is considered essential to achieve the appropriate levels of quantity and quality of solvency for the wholesale business, and represents one of the elements defining the competitive position of Cecabank.

The principles established by the Board and which determine risk management at Cecabank are as follows:

- The business and the management will focus on a stable and recurring results structure and towards the conservation of economic value of equity, in order to guarantee the long-term orderly growth of the bank;
- The management will be aligned with good banking practices and the business will be conducted in a way that is ethical, fair and respectful of law;
- Capital planning shall be designed to cover the current capital needs and any arising with the commissioning of the Strategic Plan, taking into account the minimum solvency levels defined by the Board;
- Leverage will remain at significantly lower levels than those recommended or demanded by the supervisory authorities;
- Liquidity management focused on guaranteeing that the company maintains adequate resources to comfortably meet its short- and long-term commitments, taking into account its ability to call upon the markets; diversifying the sources through which it is financed; and to maintaining a high-quality unencumbered liquid asset buffer that covers the position effect of stress-generating events: and
- The corporate governance and internal organisation, and risk admission, control and management systems shall be robust, appropriate to the activities which the bank performs and proportionate to the risks incurred.

The Senior Management team is responsible for the effective implementation of these principles and for maintaining the desired risk profile. Senior Management is also responsible for the development of the Risk Tolerance Framework through the adoption of additional metrics and controls, thereby guaranteeing effective implementation of the policies defined.

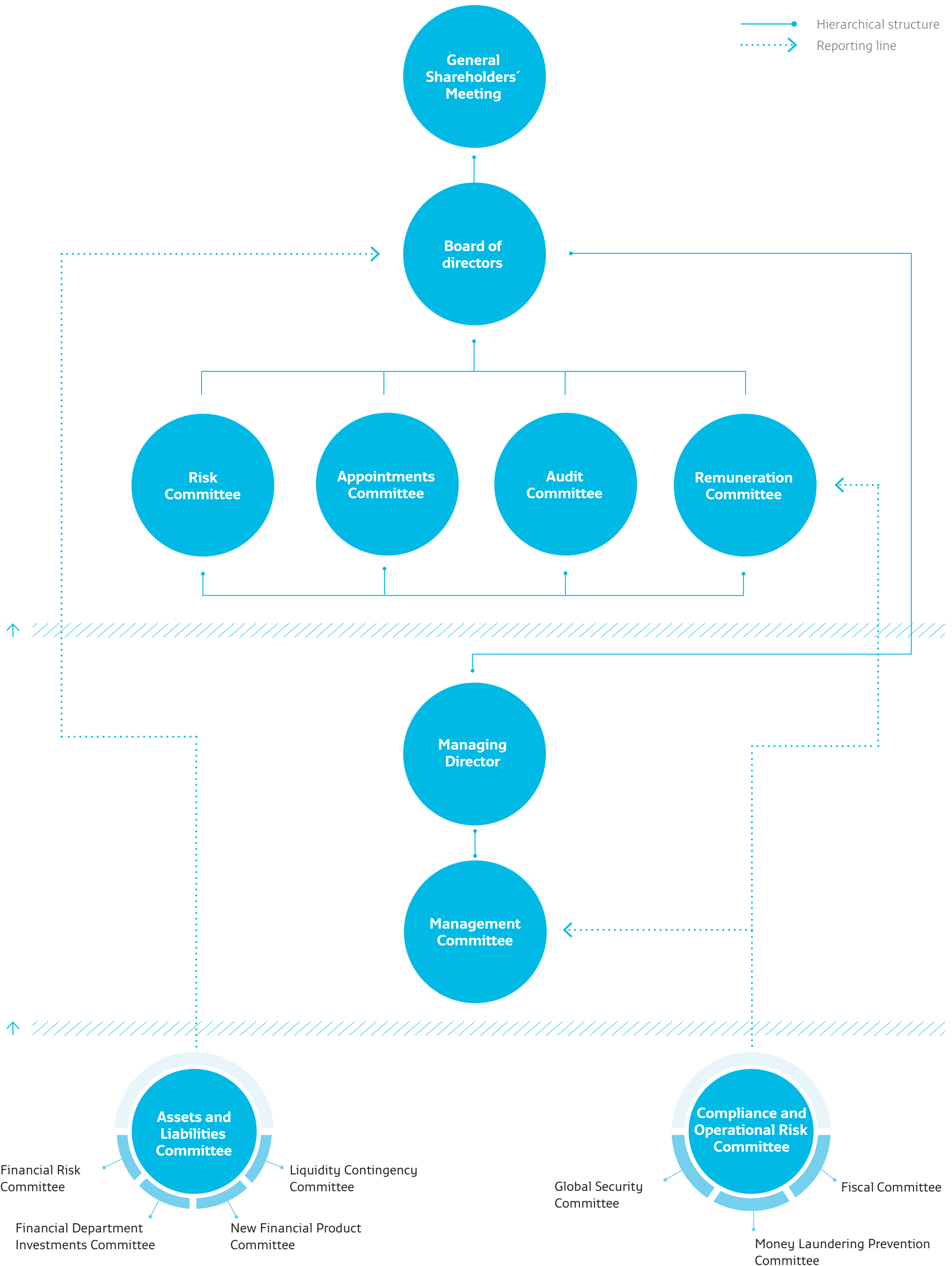
The Board receives regular information as to the maintenance of the risk profile, and reviews the risk management policies implemented at the bank. In addition, it is the body responsible for approving the result of the Internal capital adequacy assessment exercise, submitted each year to the Supervisor. In these activities, it has the support and guidance of the Risk Committee. There is a monitoring structure which allows the Board and the Risk Committee to identify potential deviations, so as thereby to adopt the necessary measures and hence adjust the risk profile.

As mentioned at the beginning, this document was approved by the Board of Directors of Cecabank, which performed its review with the assistance of the Risk Committee. As a result, in accordance with the requirements of Article 435 (1)(e) of Regulation (EU) 575/2013, the Board guarantees that, following the analysis performed, the bank classifies for the moderate-low risk profile and falls, therefore, within the accepted tolerance levels. Thus the systems, processes, policies and resources employed for risk management are appropriate. Likewise, no adverse element that could modify this situation in the future is anticipated.

Annex I to this document includes detailed information as to the principles established by the Board which define risk management at Cecabank, in addition to the specific policies and objectives applied in the management of the various risks which have a significant effect on it.

2.1 Corporate Governance of the risk function

The governing bodies of Cecabank are the General Shareholders' Meeting and the Board of Directors, in addition to the delegated bodies designated by the Board. From the perspective of the definition of risk tolerance, the monitoring of the implementation of management policies and the monitoring of risk profiles, Cecabank has established a supporting structure and a reporting system as described in the following organisational chart:


Hierarchical structure
Reporting line
General Shareholders´ Meeting
Board of directors
Risk Committee
Appointments Committee
Audit Committee
Remuneration Committee
Managing Director
Management Committee
Assets and Liabilities Committee
Financial Risk Committee
Liquidity Contingency Committee
Financial Department Investments Committee
New Financial Product Committee
Compliance and Operational Risk Committee
Global Security Committee
Fiscal Committee
Money Laundering Prevention Committee

2.1.1 Responsibilities of the governing bodies

The **Board of Directors** of Cecabank establishes the corporate objectives of the Bank, and holds ultimate responsibility for the risks incurred by the bank and performance of its activities. It is therefore this body which establishes the risk appetite and general policies with regard to the assumption of risks. Likewise, the Board is the driving force in the corporate risk culture, which focuses on guaranteeing efficient internal control systems and rigorous and complete risk management and measurement processes. Throughout 2016, this body met on a monthly basis.

The Board of Directors of Cecabank is comprised of the number of members designated in the General Shareholders' Meeting, which cannot be less than 5 or more than 15. On 31 December 2016 the Board is formed by 12 Members: 7 proprietary members, 4 independent advisers and an executive-director. There is also an independent member and a proprietary member whose appointments were agreed upon in the General Meeting of 20 December 2016, and who joined the Board in 2017.

The delegated commissions of the Board of Directors of Cecabank assist it in performing its responsibilities. Specifically, with regard to risks, these bodies undertake the following activities:

- **Audit Committee.** This Committee supervises and evaluates the efficacy of the internal control structure of the bank, internal auditing and risk management systems; and overseeing the process of drawing up and presenting regulatory financial information.
- **Risk Committee.** This Committee advises the Board as to the establishment and monitoring of the risk appetite of the bank, and evaluates the application of this strategy by Senior Management and the results thereof. The Risk Committee held five meetings, in March, April, June, September and December 2016.
- **Remuneration Committee.** This body advises the Board with regard to the bank's remuneration policies and the alignment thereof with the maintenance of risk appetite.
- **Appointments Committee.** This Committee advises the Board in relation to candidates for vacant positions on the Board of Directors and compliance with the suitability requirements for the Board's members.

To assist the Cecabank Board of Directors to fulfil its risk responsibilities regarding the maintenance of the risk profile and the implementation of the policies agreed, it has established a reporting and monitoring system.

The main objective of this supervisory exercise is to keep the Board abreast, directly and through its supporting bodies, of compliance with the tolerance limits of the evolution of the metrics supporting them; to prospectively identify any source that could result in an infringement of the limits and to alert in the case of any stress situations; and to enable corrective actions to be taken, when appropriate.

To this end, the Risk Committee, with the support of the Risk Department, develops the outline and contents of the reporting received from internal units and that which is sent to the Board. This information includes a control panel that integrates the main evolutionary indicators relating to risks and capital, and monitors the operating results and the annual budget.

Furthermore, the Board and its supporting committees have unrestricted access to the personnel involved in the risk, planning, audit, control and regulatory compliance functions.

[2] All details regarding the composition, functions and functioning of these commissions may be found in the stakeholders section of the Cecabank website.

2.1.2 Policies for selecting Board Members and Diversity of the Board of Directors

The bank has policies for selecting board members and for the target representation of the least represented sex on the Board of Directors to meet the provisions of Act 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions.

2.1.2.1 Director selection policy

In accordance with the regulations on governance, monitoring and solvency and, specifically, standards regarding the suitability of the members of the Board of Directors, Cecabank must have a board member selection policy.

The Appointments Committee meeting of 23 May 2016 agreed upon submission to the Board of Directors of the proposal to approve of the board member selection policy, that was subsequently approved on 24 May 2016, (the Policy can be found in the Corporate Governance and Remuneration Policy section of the Cecabank corporate website, www.cecabank.es).

The purpose of the policy is to ensure that the board member selection, appointment and renewal procedures strive towards a suitable composition of the Board and of its Committees, in accordance with the regulations. The policy establishes that in the selection of candidates, the Appointments Committee will take into account the balance of knowledge, skills, diversity and experience on the Board of Directors, and establishes a procedure for the consideration of potential candidates to cover vacancies on the Board.

The policy establishes that board member candidates should be of commercial and professional repute, have an adequate level of knowledge and experience to carry out their duties, and be in a position to exercise good governance at the bank. It also establishes that the Board of Directors should have members who, when considered as a whole, bring together sufficient professional experience in the governance of credit institutions to guarantee the Board of Directors has the actual capacity to make decisions independently and autonomously for the benefit of the bank.

2.1.2.2 Policy on the representation target for the sex that is least represented on the Board of Directors

In accordance with that stipulated in article 31.3 of Act 10/2014, of 26 June, on the planning, supervision and solvency of credit institutions, the then Appointments and Remunerations Committee, in its meeting of 25 November 2014, approved the "Policy on the representation target for the sex that is least represented on the Board of Directors" ("the Policy"). This Policy contains guidelines on how to increase the number of individuals of the sex that is least represented, that is, females. The approved Policy sets as a short term goal, that in 2015 at least fifty percent (50%) of independent board members should be women. In the medium term, the goal for the representation of women on the Board of Directors is that it should be on an upward trend, with the ultimate objective being to reach an equal balance of men and women on the Board. In order to reach this objective, vacancies that arise in the Board and the different Committees shall be taken into account. The Board of Directors acknowledged its approval of the Policy (the document can be found in the Corporate Governance and Remunerations Policy section of Cecabank's corporate website, www.cecabank.es).

In April, CECA, Cecabank's majority shareholder, showed its support for the appointment of a new proprietary board member. As such the Board of Cecabank decided that, in line with corporate governance best practice, if a new proprietary board member were to be added it would also need to incorporate an additional independent board member to keep a third of the board as independent board members, bringing the total number on the Board to 14.

In the meeting of 23 May 2016 the Committee defined the required profile type for a candidate to be an independent board member for Cecabank, and established that this member should be female, in accordance with the Policy approved by the Committee.

A (male) proprietary board member was appointed at the General Shareholders' Meeting of 20 December, and the new independent board member is female: both joined the Board in 2017.

2.1.3 Supporting structure for the Board of Directors

In addition to the Board and its Commissions as described above, the following committees in which Senior Management is involved also play a key role in the governance, policy design and monitoring of risks.

Assets and Liabilities Committee

By appointment by the Board of Directors, this Committee is the body of the bank through which the Senior Management participate in the monitoring and control of financial risks and the development and implementation of risk policies guaranteeing that the established risk profile is maintained. The Assets and Liabilities Committee reports regularly on the activity undertaken by the Board of Directors.

The Assets and Liabilities Committee has the following structure of support committees:

- **Financial Risk Committee.** This Committee advises the Assets and Liabilities Committee on processes of admission, monitoring and control of financial risks and in the development and implementation of risk policies.
- **Financial Department Investments** Committee. This body provides support to the Assets and Liabilities Committee for the management and monitoring of equity investments and divestments, loan funds and various account balances on the bank's balance sheet.
- **New Financial Product Committee.** Analysing operations in financial products and markets. It approves, as required, new financial products to be used by the bank.
- **Liquidity Contingency Committee.** This Committee evaluates the liquidity situation of the bank and the markets, and, in the event of a liquidity crisis, it defines the measures to be taken and coordinates actions.

Compliance and Operational Risk Committee

The mission of the Compliance and Operational Risk Committee is the approval, reporting, management, monitoring and control of non-financial risks of the bank. It acts with regard to risks within the Risk Tolerance Framework, approved by the Board, at the proposal of the Risk Committee; and within the General Control Framework, approved by the Board at the proposal of the Audit Committee.

This Committee is the body that establishes Senior Management participation in the monitoring and control of financial risks and the development and implementation of risk policies guaranteeing that the approved risk profile is maintained. The Compliance and Operational Risk Committee regularly reports on the management of operational and reputational risks to the Steering Committee and Board of Directors, via the Audit Committee.

In order to perform the functions assigned to it, the Compliance and Operational Risk Committee has three specialised supporting bodies: the Committee for the Prevention of Money Laundering and Financing of Terrorism, the Global Security Committee and the Fiscal Committee.

2.1.4 Risk management departments

Article 38 of Act 10/2014 stipulates that credit institutions must have a unit that assumes the role of risk management in proportion to the nature, scale and complexity of its activities.

Underpinned by the aforementioned principles, the structure of the risk function of Cecabank is organized in order to comply with these requirements. Key requirements in this respect include the independence of this unit from the ones under its supervision and control; holding a relevant status, taking part in decision-making processes; and having access to the Board of Directors, with sufficient resources to do so.

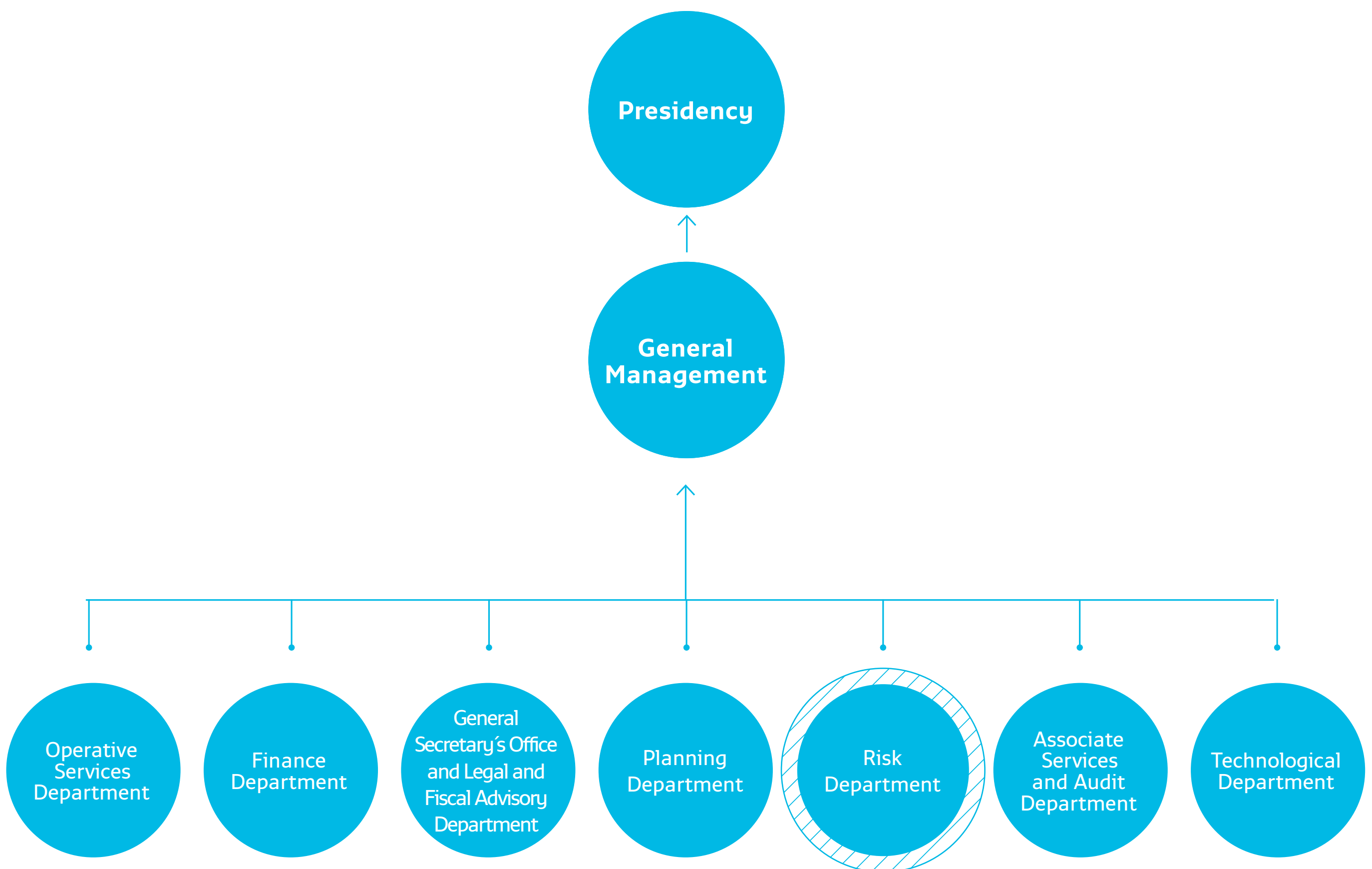
This section gives an overview of the structure of the bank's risk function which, along with the description of the procedures included in Annex I, demonstrates that Cecabank complies with the aforementioned requirements enacted by Royal Decree 84/2015 and Bank of Spain Circular 2/2016, as well as the Corporate Governance guidelines of the European Banking Authority.

2.1.4.1 Risk Department

The Risk Department is responsible for ensuring that the risk strategy is effectively implemented through the development of policies, procedures, controls and systems which are appropriate, and understood by the business areas assuming risks.

The Department is independent of the business areas, in both functional and hierarchical terms. Its manager reports directly to the Managing Director and is actively involved in the Steering Committee, the Assets and Liabilities Committee, and the Compliance and Operational Risk Committee.

Its position within the organisation has been established with the aim of ensuring the independence and autonomy required so as to guarantee compliance with the objectives set.



Specifically, the Risk Department is responsible for the identification, measurement and control of credit risk, market risk and structural balance sheet risk (ALM). It is also responsible for reviewing that the exposure to each of the risks lies within the tolerance limits established by the Board and the Assets and Liabilities Committee, both at an individual level and overall.

It is also the department responsible for the development of measurement methodologies for all risks, and it is involved in their implementation in the control tools in order to ensure that they are permanently updated, aligned with good market practice, and are appropriate for the complexity and levels of the risk incurred. Proposals for methodological improvement or modification are approved by the Assets and Liabilities Committee at the proposal of the Financial Risk Committee.

The Department is structured as follows:

- **The Market, Balance and Liquidity Risk Division**

This division is responsible for the management and control of market risk and structural balance sheet risk, and also for the monitoring of the management results of the Trading Activities.

- **Risk Control and Analysis Division**

The Risk Control and Analysis Division is responsible for the analysis and control of credit risk associated with the activities of the various business units. This analysis is the basis for the adoption of decisions at the Financial Risk Committee and the Assets and Liabilities Committee.

- **Pricing and Methodological Control Division**

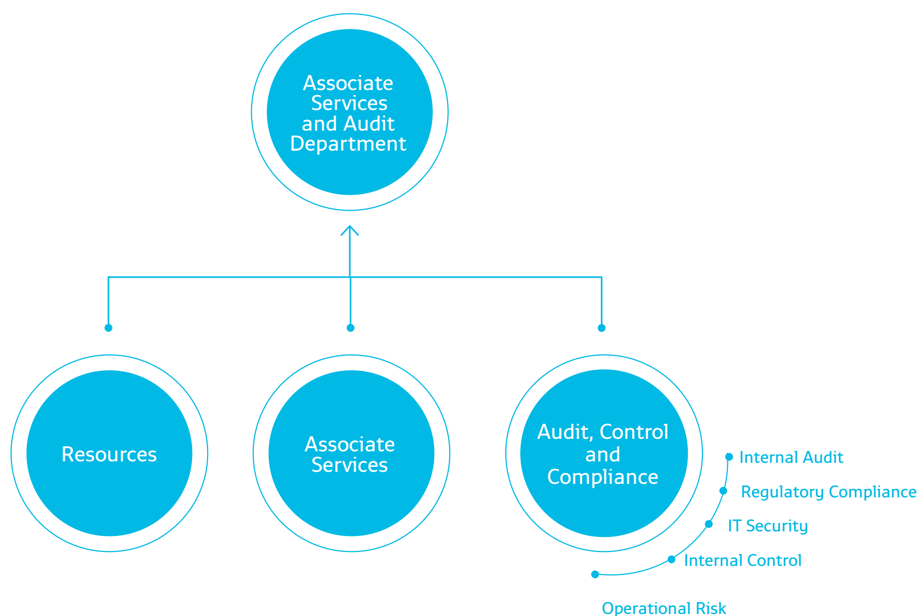
This is the division responsible for the valuations and prices used in risk management, accounting and deposits, among others, and the extension of the standardisation there of.

2.1.4.2 Operational Risk Unit

Its key function is to plan, organise and implement throughout the bank the operational risk management system in the various phases (identification, evaluation, monitoring and control/mitigation of the risk), in accordance with approved policies and procedures, along with the design and application of the corresponding information system. Its key objective is to align the "operational risk profile" of the bank with the guidelines established by Senior Management.

In order to guarantee its functional independence, the Operational Risk Unit is part of the Associate Services and Audit Department and, within this, in the Audit Control and Compliance Division, which is responsible for the bank's internal control structure.

The diagram below indicates the position of the Operational Risk Unit within the organisation.



2.1.4.3 Regulatory Compliance Department

The Regulatory Compliance Department, as may be seen in the previous organisational chart, is part of the Audit, Control and Compliance Division of the Associate Services and Audit Department, and answers directly to the Head of Division. As such, it is an independent function from the business units.

Its main aim is to ensure efficient management of compliance risk, which is defined as the risk that non-compliance with legal demands or internal standards could impact on the income statement, either directly, as a result of official sanctions or adverse judgements, or indirectly through a negative impact on the bank's reputation.

Its main spheres of action are the prevention of money laundering, standards of conduct on the Securities Market (RIC and MiFID), data protection and corporate governance.

2.1.5 Internal Audit of Risks

Internal Audit is part of the third line of risk control defence. One of the general aims of the analysis carried out by this independent team is to verify that the risks an institution is taking on fall within the parameters agreed by the Board of Directors, as outlined below.

Internal Audit is part of the Audit, Control, and Compliance Division, the head of which reports to the Audit Committee on the activities being undertaken. Its position within the institution is to ensure its independence and autonomy, required so as to guarantee compliance with the objectives set, which include the following:

- Assess internal control systems and procedures designed by the bank to adapt, measure, monitor, and control risks deriving from activities and verify that they are adequate and effective.
- Assess accounting, data processing, and information systems.
- Assess control systems and procedures for safeguarding assets.
- Examine the systems and procedures established to ensure compliance with the applicable regulations. Examine the reporting of information. Prove compliance with standards, policies, and established procedures.
- Monitor second-level control units, including Standards Compliance, the Operational Risk Unit, Internal Control, and the Risk Department.
- Inform Senior Management, in good time and appropriately, of the results of the reviews and activities undertaken.
- Keep the Audit Committee constantly informed of any issues that could suppose an increase in risk with regard to that approved by the Board of Directors.
- Verify compliance with the methodologies used according to that approved by the Board of Directors.
- Audit of the technological environment and risk applications.

Internal Audit publishes reports including an evaluation of the work carried out in these fields, as well as recommendations they consider necessary to resolve any identified incidents and an expected resolution date. Similarly, Internal Audit carries out continual monitoring of the recommendations, with the aim of checking that they have been properly implemented.

03 CAPITAL

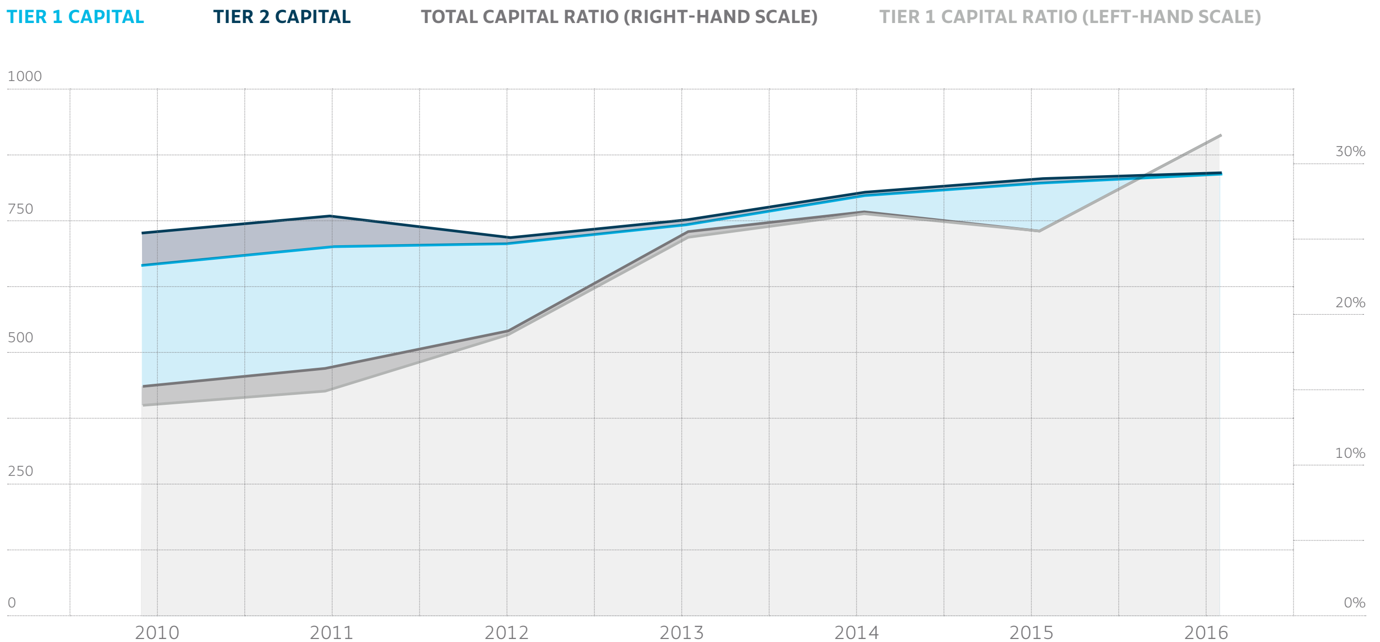
3.1	**Eligible Capital**	**19**
3.1.1	Tier 1 Capital	19
3.1.2	Tier 2 Capital	21
3.2	**Minimum Capital Requirements**	**21**
3.2.1	Minimum Capital Requirements for Credit Risk	22
3.2.2	Capital Requirements for Position Risk of the trading portfolio	24
3.2.3	Minimum Capital Requirements for Foreign exchange risk and gold position risk	25
3.2.4	Capital Requirements for Operational Risk	25
3.2.5	Procedures applied to the evaluation of internal capital adequacy	25

3. CAPITAL

At the close of 2016 the solvency rate of Cecabank was 31.65%, 99.8% comprising common equity Tier 1 Capital (CET1). The CET1 ratio stood at 31.58%.

A key factor for management is keeping a sound capital structure in terms of quantity and quality. As a result, and as reflected in the graph, in recent years, the Tier 1 capital base has been progressively strengthened through the capitalisation of profit which, together with the maintenance of low risk levels, has enabled a sustained improvement of the capital ratios over time.

TIER 1 CAPITAL



The Board of Cecabank has set a minimum capital ratio of 14%. This ratio is established in terms of Common Equity Tier 1 capital. In addition, the Risk Tolerance Framework establishes a margin of leeway for this ratio above which the bank must operate under normal circumstances. Both levels are amply surpassed at present.

This comfortable solvency situation allows Cecabank to cover current and future capital requirements, and those deriving from additional risks when self-assessing capital, that are not included in Basel Pillar 1 requirements. The ratios are also lower than those that would be obtained by applying current solvency regulations without any transitional provisions (known as Basel III fully loaded) because, as shown in section 3.1.1. and in Annex IV, capital requirements would remain the same whilst eligible own funds would be higher.

Meanwhile, on 22nd December 2016, the Bank of Spain informed Cecabank, S.A. of the decision on capital taken as a result of the bank's risk supervision evaluation process. As a result of this process, the Bank of Spain set a required CET1 solvency ratio of 9.63%, which includes all concepts of risk, a ratio that coincides with that calculated by the bank in its self-assessment of capital for the year 2016. At the end of the financial year, the own funds classified as CET1 covered this requirement with an excess of 228%.

Cecabank is also subject to a "capital conservation buffer" of 1.25% of CET1 for 2017 (which will go up to 2.5% in 2019). Taking this buffer into account, along with the Bank of Spain's decision on capital mentioned in the previous paragraph, the excess of capital, on top of the actual requirement, stands at 190% at the close of the year.

[3] Contrary to the previous year, own funds at the close of 2016 did not include the year's results that the Board of Directors agreed to retain as a reserve, of a value of €57.3 million. Having done so, the solvency ratio would have stood at 33.82% and the CET1 ratio at 33.75%.

There are no additional requirements for 2016 in terms of the countercyclical capital buffer given that Cecabank's relevant exposures are in geographical locations set at 0% (as is the case in Spain, where most are located, as outlined in section 4.2).

The result of the internal evaluation of capital requirements is in agreement with the supervisor's assessment and, as a result, the levels of coverage of these requirements are similar.

Another factor that demonstrates Cecabank's level of solvency is the leverage ratio, to which the subsequent section 10 is dedicated. The calculation performed for December 2016 in accordance with the guidelines of the European Banking Authority (EBA) adapted to the standards of the Basel Banking Supervision Committee stood at 11.2%, revealing Cecabank to be a bank with a low level of leverage.

3.1 Eligible capital

As at 31 December 2016, the Group's total eligible capital requirements stands at €837 million, of which 99.8% are Common Equity Tier 1 capital.

The characteristics of the eligible capital and their composition are set out below.

3.1.1 Tier 1 Capital

For the purposes of the calculation of minimum capital requirements, Tier 1 capital is understood as the elements defined as such, taking into consideration the corresponding deductions, in Part Two, Title I, Chapters 1, 2 and 3 of Regulation (EU) Nº 575/2013.

Common Equity Tier 1 capital components are characterised as equity that can be immediately used without restriction in order to cover risks or losses as soon as they occur, being recorded for their amount free of any foreseeable tax at the time of calculation.

The Common Equity Tier 1 capital of the Group on 31st December 2016 amounted to €835 million, predominantly consisting of paid-up capital instruments, the share issue premium and cumulative gains. The amounts corresponding to intangible assets incorporated within equity have been deducted from this.

Something new for the financial year is the reduction in Common Equity Tier 1 capital due to prudential filters - the result of the application of Commission Delegated Regulation (EU) 2016/101, of 26 October 2015, regarding technical regulatory standards for prudent assessment. This completes Regulation (EU) no. 575/2013 and establishes requirements regarding prudent reductions of the value of positions on the investment portfolio, to a reasonable value. Cecabank calculated a reduction using a simple approach which as at 31 December 2016 resulted in a Tier 1 Capital reduction of €5.4 million.

The following table gives a breakdown of the eligible capital requirements of the Consolidated Group as at 31st December 2016, taking into account the timetable of transitional adjustments (phase-in) indicating each of the components and deductions.

[4] This can be examined in greater detail in Annex IV of the document..

Concept (thousands of euros)	Amount
Tier 1 Capital	**835,348**
Common Equity Tier 1 capital	835,348
Capital instruments eligible as Common Equity Tier 1 capital	727,750
Paid-up capital instruments	112,257
Share premium	615,493
Retained earnings[5]	155,613
Cumulative gains from previous years	155,613
Eligible profit	0
Other cumulative comprehensive results	53,574
Common Equity Tier 1 capital reductions due to prudential filters	-5,431
Other intangible assets (-)	-59,426
Pension fund assets with defined benefits (-)	-5,171
Surplus of the elements deduced from additional Tier 1 capital with regard to additional Tier 1 capital (-)	-23,770
Other transitional adjustments of the Common Equity Tier 1 capital (-)	-7,791

Eligible capital requirements for the Consolidated Group, once the aforementioned timetable is finalised and transitional adjustments cease (fully loaded) would be €31.5 million higher, as per the following breakdown:

Concept (thousands of euros)	Amount
Tier 1 Capital	**866,909**
Common Equity Tier 1 capital	866,909
Capital instruments eligible as Common Equity Tier 1 capital	727,750
Paid-up capital instruments	112,257
Share premium	615,493
Retained earnings[6]	155,613
Cumulative gains from previous years	155,613
Eligible profit	0
Other cumulative comprehensive results	53,574
Common Equity Tier 1 capital reductions due to prudential filters	-5,431
Other intangible assets (-)	-59,426
Pension fund assets with defined benefits (-)	-5,171

Annex V shows capital requirements under the phase-in and fully loaded approach in greater detail. Additionally, Annex VI shows a reconciliation of own funds elements with audited financial statements.

[5] This epigraph would have been increased by €57.3 million, if the results that the Board of Directors decided to allocate to reserves had been included.
[6] This epigraph would have been increased by €57.3 million, if the results that the Board of Directors decided to allocate to reserves had been included.

3.1.2 Tier 2 Capital

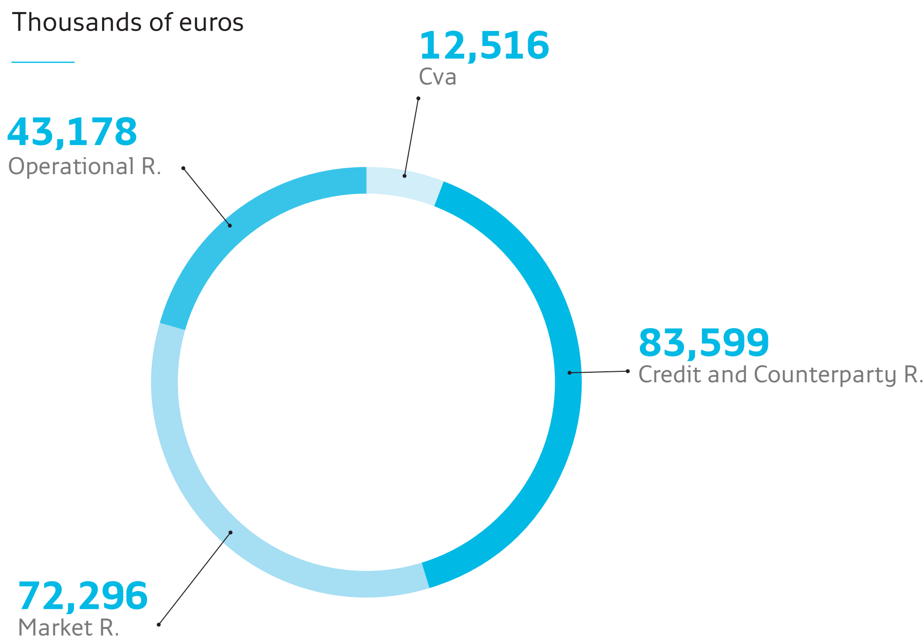
On 31st December 2016, the Tier 2 capital elements amounted to €1.7 million euros (0.2% of the total eligible capital), comprised by the book balance of the outstanding general loss provision corresponding to client insolvency risk. Generic coverage at 31 December 2016 has been calculated in accordance with Annex IX of Bank of Spain Circular 4/2016, modifying Circular 4/2004, differentiating on the one hand collective coverage for standard risks, and on the other collective coverage for risks under special monitoring, which have higher levels of coverage due to their greater risk.

Tier 2 capital is understood as the factors defined in Part Two, Title I, Chapter 4 of Regulation (EU) No. 575/2013, with the limits and deductions established in this chapter. These own resources, although they comply with the definition of equity established in the regulations in force, are characterised by having, in principle, greater volatility and a lower degree of permanence than those elements classified as Tier 1 capital.

3.2 Minimum Capital Requirements

The Pillar 1 capital requirements of Cecabank at the close of the 2016 financial year amounted to €211.6 million.

The distribution by risk is as follows:



The eligible Common Equity Tier 1 own funds cover these Pillar 1 capital requirements with a surplus of 294% over the requirement itself.

3.2.1 Minimum Capital Requirements for Credit Risk

There follows an overview of the amount of the minimum capital requirements of the Consolidated Group by credit risk cause and counterparty on 31st December 2016. This also includes information on exposure, the effects of technical mitigation and risk-weighted assets.

Risk Category (thousands of euros)	Net Exposure*		Value of the Exposure **			APR´s***	Capital requirm.
	On-balance-sheet Exposure	Off-balance-sheet Exposure	On-balance-sheet Exposure	Off-balance-sheet Exposure	APR´s	APR Density ****	
Central administrations or central banks	4,259,988	5,311	4,459,360	5,311	178,129	4%	14,250
Regional administrations and local authorities	438,002	0	438,002	0	35	0%	3
Public sector entities and other non-profit public institutions	111,726	10,017	9,570	23,153	5,224	16%	418
Institutions	915,850	236,820	819,006	163,572	300,407	31%	24,033
Companies	325,728	85,144	208,027	53,185	159,748	61%	12,780
Retailers	9,508	1,311	9,508	626	7,601	75%	608
Exposures secured by mortgages on immovable property	41,643	0	41,643	0	14,575	35%	1,166
Exposures in default	844	0	471	0	471	100%	38
Exposures associated with particularly high risk	3,661	0	3,661	0	5,492	150%	439
Covered bonds	21,031	0	21,031	0	2,103	10%	168
Exposure to institutions and companies with a short-term credit assessment	220	82	220	82	143	47%	11
Exposures to collective investment undertakings (CIU)	26,774	26	684	26	710	100%	57
Equity exposures	120,306	0	120,306	0	120,306	100%	9,625
Other exposures	157,516	0	157,516	0	55,806	35%	4,464
Securitisation positions	236,726	42,592	236,726	0	194,234	82%	15,539
Totals	**6,669,523**	**381,303**	**6,525,731**	**245,955**	**1,044,984**	**15%**	**83,599**

* Net of corrections and provisions.
** Fully adjusted exposure value following application of credit risk mitigation techniques and following the adjustment of exposure corresponding to conversion factor order account entries.
*** Risk-weighted assets.
**** Density of risk-weighted assets: APRs/Value of the exposure.

The distribution of the fully adjusted exposure according to the weighting by corresponding risk is shown in the following table:

Risk Category (thousands of euros)	Exposure classified by applied weighting percentage according to the credit rating level of each exposure									
	0%	2%	20%	35%	50%	75%	100%	150%	Other	Total
Central administrations or central banks	4,373,234	0	0	0	0	0	33,650	0	57,792	4,464,676
Regional administrations and local authorities	437,825	0	177	0	0	0	0	0	0	438,002
Public sector entities and other non-profit public institutions	25,897	0	2,001	0	3	0	4,822	0	0	32,723
Institutions	0	0	748,655	0	166,493	0	67,429	0	0	982,577
Companies	0	11,484	56,669	0	23,652	0	134,151	0	35,254	261,210
Retailers	0	0	0	0	0	10,134	0	0	0	10,134
Exposures secured by mortgages on immovable property	0	0	0	41,643	0	0	0	0	0	41,643
Exposures in default	0	0	0	0	0	0	471	0	0	471
Exposures associated with particularly high risk	0	0	0	0	0	0	0	3,661	0	3,661
Covered bonds	0	0	0	0	0	0	0	0	21,031	21,031
Exposure to institutions and companies with a short-term credit assessment	0	0	196	0	2	0	103	0	0	301
Exposures to collective investment undertakings (CIU)	0	0	0	0	0	0	710	0	0	710
Equity exposures	0	0	0	0	0	0	120,306	0	0	120,306
Other exposures	101,709	0	0	0	0	0	55,806	0	0	157,515
Securitisation positions	0	0	31,915	0	33,920	0	170,891	0	0	236,726
Totals	4,938,665	11,484	839,613	41,643	224,070	10,134	588,339	3,661	114,007	6,771,686

3.2.2 Capital Requirements for Position Risk of the trading portfolio

The following table shows a list of the capital requirements by price risk of the positions held in the trading portfolio of the Consolidated Group on 31st December 2016, in accordance with the method applied to the calculation there of:

Method applied (thousands of euros)	Capital requirement
Position risk of debt instruments in the trading portfolio calculated in accordance with the terms of Part Three, Title IV, Chapter 2, Section 2 of Regulation (EU) No. 575/2013	59,598
General risk (*)	59,107
Specific risk	491
Position risk in equity instruments calculated in accordance with Part Three, Title IV, Chapter 2, Section 3 of Regulation (EU) No. 575/2013	9,901
Total capital requirements by price risk of the trading portfolio	**64,499**

(*) Calculated by applying the "maturity-based" method.

As indicated in Section 2 of Annex I, the bank uses an internal model for market risk management and control. Based on the results of this model and as a control tool, Cecabank makes an estimate of the capital consumptions for market risk (which would include those in this section and the following section) that would occur, in accordance with the methodology stipulated by the solvency regulations for models of this type.

Despite the substantial differences between the two models, such as the reference time of data and the way of approaching risks on the portfolio, the average values of capital requirements obtained from the quarterly calculations show no significant differences in the results for the year 2016 between the models used.

3.2.3 Minimum Capital Requirements for Foreign exchange risk and gold position risk

The following table gives a breakdown of the amount of the Consolidated Group's capital requirements on 31st December 2016 as a result of foreign exchange risk and gold position risk. The calculation is performed in accordance with the standard method, as defined in Part Three, Title IV, Chapter 3 of Regulation (EU) No. 575/2013.

(Thousands of euros)	
Capital requirements for foreign exchange risk and gold position risk	2,797

3.2.4 Capital Requirements for Operational Risk

The following table gives an overview of the capital requirements of the Consolidated Group for operational risk on 31st December 2016. The calculation was performed with the standard method, as defined in Part Three, Title III, Chapter 3 of Regulation (EU) No. 575/2013.

(Thousands of euros)	
Capital Requirements for Operational Risk	43,178

3.2.5 Procedures applied to the evaluation of internal capital adequacy

The Cecabank Group has implemented an internal assessment process which comprises a quantitative and qualitative evaluation of its internal governance structure, its systems of identification, measurement and aggregation of risks incurred by it in the pursuit of its activities and the control environment. The fundamental aim of this review is to evaluate the adequacy of the available capital, take into consideration the control framework and risk management, the economic climate and its strategic business plan.

The procedure also serves to ensure that risks lie within the limits which the Board and Senior Management establish in order to define the risk profile.

This procedure is aligned with the “Guidelines on Internal Capital Adequacy Assessment Process” (hereinafter ICAAP Guidelines) published by the Bank of Spain, providing the basis for drafting the "Capital Self-Assessment Report" (hereinafter, the CSR), which is presented each year to the supervisory authority.

For the purposes of this Report, it was decided to generally employ the simplified options proposed by the supervisor in the aforementioned ICAAP Guidelines, which generate prudent additional capital requirements and facilitate the supervisory review process. Nonetheless, the bank has complemented those additional needs for the case of the operational risk and concentration risk. In such cases, the application of a more rigorous model that is aligned with the business of the bank produces more demanding capital needs than those defined by the supervisor.

Appropriate levels of capital endowment have therefore been established in accordance with the various significant risks identified within the context of the Internal Capital Assessment Process. The internal process of analysing risk levels and capital sufficiency takes into consideration the Pillar 1 risks, for the risks that include a regulatory processing sufficiency assessment, and other risks such as the aforementioned concentration risk, liquidity risk and structural interest rate risk in the balance sheet. Information on all of these risks is provided throughout this document and in Annex I.

The conclusions reached after this process of internal analysis are that the bank maintains low levels of risk for which it has ample capital reserves and sufficient resources in order to guarantee its liquidity situation.

In addition, capital planning has been performed. As a result, monitoring can be conducted to guarantee the maintenance of capitalisation levels within the established capital target, and an analysis of any factors which could jeopardise their maintenance, establishing the actions to be performed. The outcome of this exercise enables an evolution to be anticipated in which the quality and quantity of capital available will have appropriate margins in order to be able to guarantee that the solvency objectives would be maintained, even in situations of stress. Neither is any impediment anticipated which would prevent current or future capital requirements from being met, or coverage of the capital buffers described in Directive 2013/36/EU which could be applied to the Group.

04 CREDIT AND DILUTION RISKS

4.1	Credit risk exposure on 31st December 2016	27
4.2	Geographical and counterparty distribution of exposures	28
4.3	Residual maturity of the exposures	28
4.4	Counterparty credit risk	29
4.4.1	Credit derivatives	29
4.4.2	Impact of collateral in the case of a reduction in the bank's credit rating	29
4.5	Concentration risk	30
4.6	Impaired exposures	30
4.7	Variation during the 2016 financial year in losses through credit risk impairment and provisions for risks and contingent commitments for credit risk	31
4.8	Credit rating agencies used	32
4.8.1	General description of the process of assignment of public security issue credit ratings to comparable assets	32
4.8.2	Risk-weighting exposure determined by the risk assessment of external rating agencies	32
4.9	Securitisation transactions	33
4.10	Credit risk mitigation techniques	33
4.11	Encumbered assets	35

4. CREDIT AND DILUTION RISKS

4.1 Credit risk exposure on 31st December 2016

As an average annual value, the value of the Consolidated Group's exposures, on 31st December 2016, to credit risk, following the adjustments indicated in Part Three, Title II, Chapter 1 of Regulation (EU) Nº 575/2013, of the corresponding impairment value corrections of assets , as applicable, of the effects of credit risk mitigation techniques and the application of conversion factors the entries included in order accounts is presented below, disclosed by risk category:

Risk Category (thousands of euros)	31 December 2016	2016 ANNUAL AVERAGE
Central administrations or central banks	4,464,676	4,396,645
Regional administrations and local authorities (*)	438,002	414,175
Public sector entities and other non-profit public institutions	32,723	75,940
Institutions	982,577	836,793
Companies	261,210	316,663
Retailers	10,134	8,672
Exposures secured by mortgages on immovable property	41,643	43,983
Exposures in default	471	220
Exposures associated with particularly high risk	3,661	3,453
Covered bonds	21,031	21,544
Exposure to institutions and companies with a short-term credit assessment	301	2.666
Exposures to collective investment undertakings (CIU)	710	9,668
Equity exposures	120,306	98,678
Other exposures	157,515	146,020
Securitisation positions	236,726	283,444
Total	**6,771,686**	**6,658,563**

A more detailed breakdown of this exposure may be found in section 3.2.1.

[7] Annex II of this report includes the definition of “delinquency" and “impaired positions" that are used in different sections of this report, as well as the definition of the methods used in the determination of provisions for deterioration of the credit risk.

4.2 Geographical and counterparty distribution of exposures

The following table gives an overview of the exposures defined in the above subsection, with a breakdown by geographical area:

Geographic region (miles de euros)	Amount of the Exposure
Spain	5,550,270
Other countries in the EMU	1,143,516
Other	77,900
Exposure as at 31 December 2016	6,771,686

4.3 Residual maturity of the exposures

The following table sets out the distribution by residual maturity term of the exposures referred to in section 4.1:

Risk Category (thousands of euros)	Residual maturity as at 31 December 2016				
	Current	Up to 3 months	Between 3 months and one year	Between 1 and 5 years	More than 5 years
Central administrations or central banks	1,984,177	587,853	1,249,754	572,337	70,551
Regional administrations and local authorities	177	25,042	256,439	107,642	48,702
Public sector entities and other non-profit public institutions	6,752	0	0	25,972	0
Institutions	745,686	5,751	1,628	215,713	14,014
Companies	120,710	0	4,705	121,637	14,160
Retailers	977	3	41	1,491	7,623
Exposures secured by mortgages on immovable property	0	1	38	511	41,092
Exposures in default	2	0	1	5	464
Exposures associated with particularly high risk	0	0	0	0	3,661
Covered bonds	0	0	21,031	0	0
Exposure to institutions and companies with a short-term credit assessment	301	0	0	0	0
Exposures to collective investment undertakings (CIU)	153	19	0	538	0
Equity exposures	81,949	0	0	38,357	0
Other exposures	148,780	0	0	3,593	4,927
Securitisation positions	0	0	0	236,726	0
Exposure as at 31 December 2016	3,089,664	618,669	1,533,637	1,324,522	205,194

4.4 Counterparty credit risk

Counterparty credit risk is understood as the credit risk arising from derivatives, repurchase transactions, securities or commodities lending for borrowing, margin lending transactions or long settlement transactions.

Below are set out the details of the exposure to counterparty risk through derivative operations on 31st December 2016:

Measurements (thousands of euros)	Amount of the Exposure
Positive Fair Value of the contracts	2,021,224
Minus: Effect of compensation agreements	1,670,712
Credit exposure after compensation	350,512
Minus: Effect of the guarantees received	-143,791
Credit exposure in derivatives after compensation and guarantees	206,721

For the calculation of the minimum capital required in association with counterparty credit risk on 31st December 2016, the Institution applied the market price valuation method, in accordance with the terms of the standards set out in Part Three, Title II, Chapter 6 of Regulation (EU) No. 575/2013. By way of summary, it can be stated that the value of the exposure is determined by adding the cost of replacement of all contracts with a positive value (established by means of attribution of a market price to the contracts and operations) and the amount of the potential future exposure of each instrument or operation, calculated in accordance with the terms of Article 274 of Regulation (EU) No. 575/2013. In the calculation of the amount of the potential risk, the scales contained in Table 1 of the aforementioned article were applied.

4.4.1 Credit derivatives

The Cecabank Group has not got any protection purchase operations contracted.

4.4.2 Impact of collateral in the case of a reduction in the bank's credit rating

The impact is extremely low in view of the fact that practically all of the collateral agreements currently in force do not have an agency rating as a factor that conditions the elements contained therein. Of the ten contracts that have the Minimum Transfer Amount linked to the rating, eight would be amended in the event of the bank's rating being lowered below the investment grade, and two in the case of losing the BB+/BA1 ratings. The impact on liquidity would not be considered relevant in any of these cases. Furthermore, in the case of one of the aforementioned contracts, even in the event that the bank were rated below the investment grade, it would require permanent deposits of €5 million in the counterparty bank.

4.5 Concentration risk

Cecabank's activity as a wholesale bank means the management of risks associated with concentration is particularly relevant. At the close of 2016 no positions exceeded the major risk threshold. However, the 10 greatest exposures, without taking into account public debt and other exposures not included in the major risks calculation, represent around 41% of the total.

Level	Rating	% 2016
2	A	19.8%
3	BBB	27.7%
Lower than 3	BB-B	26.3%
No Rating	-	26.2%
Total		**100.0%**

This exposure corresponds to financial entities, mainly Spanish credit institutions and an entity in the Eurozone with satisfactory credit ratings.

Cecabank's level of specialisation can be seen at both sectoral and geographical levels. In terms of the relevant exposure for the purpose of determining large risks, financial institutions account for 83% and those located in the Eurozone, including Spain, stood at 89%.

In the evaluation of this degree of sector concentration the exposure is considered to be maintained within a highly regulated and supervised sector. This aspect explains the level of sectoral specialisation. Irrespective of this, and as shown in section 3.2.5, the bank applies prudent criteria to cover these risks under the Pillar 2 framework, with the appropriate levels of capital.

4.6 Impaired exposures

Exposures impaired by counterparty

The following table shows the value of impaired exposures on 31st December 2016, with a breakdown by counterparty type, together with the amount of impairment losses and specific provisions for risks and contingent commitments established on them on that date, and the amount of impairment losses and provisions for risks and contingent commitments accounted for, in net terms, in the 2016 financial year with regard thereto:

Counterparty (thousands of euros)	Original Impaired Losses	Losses due to deterioration and provision for risks and contingent commitments	Net attributions to impairment losses and contingent commitments and risks for the financial year
Institutions	146	146	-3
Companies	4,808	4,436	-7.658
Retailers	644	173	-272
Securitisation positions	104,390	84,542	-10,140
Amounts as at 31 December 2016	**109,988**	**89,297**	**-18,073**

Impaired exposures by geographical area

The following table indicates the above exposures depending on their location:

Counterparty (thousands of euros)	Original Impaired Losses	Losses due to deterioration and provision for risks and contingent commitments	Net attributions to impairment losses and contingent commitments and risks for the financial year
Spain	60,341	59,498	-7,933
Other countries in the EMU	6,126	4,590	-10,694
Other	43,521	25,209	554
Amounts as at 31 December 2016	**109,988**	**89,297**	**-18,073**

At 31 December 2016 the value of defaulted exposures, net of provisions, and applying collaterals and warranties, stands at €471 thousand.

4.7 Variation during the 2016 financial year in losses through credit risk impairment and provisions for risks and contingent commitments for credit risk

The variation during the 2016 financial year in losses through credit risk impairment accounted for and in specific provisions for risks and contingent commitments for credit risk comply with the terms of Regulation (EU) No. 575/2013, both in the type of losses and provisions established, and the methodology applied to the calculation thereof (see Annex II).

An overview is given below of the changes made in the 2016 financial year in terms of asset impairment value corrections and specific provisions for risks and contingent commitments as a result of credit risk:

Losses due to impairment of assets (thousands of euros)	
Balance as at 1 January 2016	107,773
Provisions charged to income statement	4,492
Recovery credited to results	-22,564
Amounts applied during the financial year	-623
Effect of the differences in foreign currency exchange	219
Balances as at 31 December 2016	**89,297**

4.8 Credit rating agencies used

Cecabank, as the Group Institution which concentrates credit risk exposure, uses Fitch, Moody's and S&P as credit ratings agencies when determining the applicable risk weightings applicable to its exposures.

These ratings are used consistently and on a long-term basis for all the assets for which they are available, including securitisation exposure.

4.8.1 General description of the process of assignment of public security issue credit ratings to comparable assets

When there is a credit rating for a particular issue programme, this is used in order to establish the risk weighting applicable to that element.

In cases in which there is no credit rating directly applicable to a specific exposure, but there is a general credit rating for the issuer, the latter is used, in accordance with the ratings assignment criteria described in the Solvency Regulations.

The credit ratings corresponding to the issuers of a particular economic group are not used to classify the credits of other issuers of the same group.

Short-term credit ratings are applied only to those exposures which may be considered to be short-term and are not extended in other cases.

In cases in which the external credit rating corresponds to an exposure in the local currency of a debtor, this will not be used to determine the risk weighting of another exposure of the same debtor in foreign currency.

4.8.2 Risk-weighting exposure determined by the risk assessment of external rating agencies.

The following table shows all exposures weighted by risk for different categories of credit risk, separating weighted risk based on credit rating awarded by an ECAI, and those whose credit rating comes from a central administration:

Risk Category (thousands of euros)			Exposure weighted by risk
	TOTAL	Of which: with a credit rating awarded by an ECAI	Of which: with credit rating from central administrations
Central administrations or central banks	178,129	0	0
Regional administrations and local authorities	35	0	0
Public sector entities and other non-profit public institutions	5,224	2	4,822
Institutions	300,407	156,226	50,149
Companies	159,748	53,015	6,005
Retailers	7,601	0	0
Exposures secured by mortgages on immovable property	14,575	0	
Exposures in default	471	0	0
Exposures associated with particularly high risk	5,492	5,492	
Covered bonds	2,103	2,103	
Exposure to institutions and companies with a short-term credit assessment	143	143	
Exposures to collective investment undertakings (CIU)	710	0	0
Equity exposures	120,306	45,730	
Other exposures	55,806	0	0
Securitisation positions	194,234	194,234	0
TOTAL	1,044,984	456,945	60,976

4.9 Securitisation transactions

The following breakdown shows the securitisation positions held on 31st December 2016, classified by the risk-weighting bands to which they are assigned:

(thousands of euros)				Weighting			
	Original exposure	Net exposure *	Value of the Exposure**	Level 1 (20%)	Level 2 (50%)	Level 3 (100%)	Exposure weighted by risk
On-balance-sheet items	321,268	236,726	236,726	31,915	33,920	170,891	194,234
Derivatives and off-balance-sheet items	42,592	42,592					
Total	363,860	279,318	236,726	31,915	33,920	170,891	194,234

* Net corrections and provisions.
** Fully adjusted value of the exposure after the applying credit risk reduction techniques, and after the distribution of the fully adjusted exposure value corresponding to conversion factor order account entries.

On 31 December 2016 all Cecabank's securitisation operations correspond to investment positions, are traditional securitisations (no re-securitisations or synthetic securitisations), and belong to the investment portfolio. One position under negotiation for a sum of €19 million with FADE which is fully guaranteed by the State, which is why its exposure value is nil.

Cecabank has no share in securitisation programmes other than in its own position as an investor. This includes, in addition to investment in securitisation bonds, acting as a counterparty in interest rate swap contracts and, residually, providing liquidity facilities to securitisation funds.

These positions are incorporated in the usual monitoring channels corresponding to the portfolios they are held in. As well as the information published by external credit ratings agencies, monitoring of the behaviour of underlying assets and the structure of securitisation funds is carried out based on available public information, and market prices of positions are followed.

4.10 Credit risk mitigation techniques

Cecabank requires compliance with the following requirements using any of the recognised credit risk mitigation methods:

- Ensuring there is always the option to legally enforce the settlement of guarantees.
- Checking that there is never any significant positive correlation between the counterparty and the value of collateral.
- Requiring the proper documentation of guarantees.
- Undertaking the regular monitoring and control of the mitigation techniques used.

Cecabank acknowledges the following credit risk mitigation techniques:

1.- Contractual compensation agreements

Contractual compensation agreements (ISDA and CMOF Master Agreements) are employed as a credit risk mitigation technique. Furthermore, in order to reduce credit risk, CSA Annexes are signed for ISDA contracts and Annex III for the CMOF agreement for the collateralisation of the net outstanding risk in this type of operations.

The Global Master Repurchase Agreement (GMRA) is also used as a credit risk reduction technique for repo-style operations, and securities lending agreements (EMA and GMSLA).

These agreements are specified in further detail in Annex I: Risk Management Policies and Objectives Section 1: Credit Risk.

2.- Collateral

Collaterals are assets that remain subject to the guaranteed obligation.

At Cecabank collateral assets are basically cash in euros, and Spanish public debt securities. In the case of collaterals that are financial assets, the potential volatility of the value of the securities is taken into account, in line with provisions in current solvency regulations.

A particularly important case of financial collateral is the collateral (usually cash) linked with OTC derivatives, repos, or sell/buy-backs, and securities lending subject to contractual compensation agreements and financial guarantees, mentioned in the previous section.

3.- Personal guarantees and credit derivatives

These types of guarantees correspond to a third party's obligation to pay an amount in the event of a borrower's non-payment or when other specific events occur.

In terms of their capacity to mitigate credit risk, only those guarantees provided by third parties that meet the minimum requirements established by the current solvency regulations will be recognised.

Occasionally protection is purchased through credit derivatives, generally Credit Default Swaps (CDS), taken out with first-rate financial institutions.

The following details indicate the distribution of credit risk exposure on 31st December 2016 and, where applicable, the mitigation technique applied (the exposure data refers to the exposure prior to application of the risk mitigation applied):

Exposure type (thousands of euros)	Value of the original exposure
A) Exposures to which no credit risk reduction technique is applied	6,606,710
B) Exposures to which a credit risk reduction technique is applied	533,511
- Netting master agreements regarding operations with a repurchase commitment, securities or commodities lending operations or other operations tied to the capital market	189,323
- Collateral	144,815
- Hedging based on personal guarantees	199,373

At the close of 2016 there were no credit derivatives - either bought or sold - on the books.

4.11 Encumbered assets

Assets which as at 31 December 2016 are committed (contributed as collateral or guarantee against certain liabilities) and any unencumbered assets are detailed below:

(thousands of euros)	ENCUMBERED ASSETS		UNENCUMBERED ASSETS	
	Book value of encumbered assets	Fair value of the encumbered assets	Book value of unencumbered assets	Fair value of the unencumbered assets
Assets	586,368		9,508,047	
Loans on demand	16,585		2,071,853	
Equity instruments	1,521	1,521	217,358	41,937
Debt	92,985	92,447	3,789,323	3,808,284
Loans and advances other than loans on demand	475,277		1,787,173	
Other assets	0		1,642,340	

Encumbered assets mostly correspond to collaterals pledged to guarantee derivatives operations, and debt instruments that are handed over in operations involving the temporary assignment of assets.

Outlined below are the guarantees received which are used in collaterals taken for derivatives operations and in guarantees taken from the temporary acquisition of assets and securities lending:

Exposure type (thousands of euros)	Fair value of collaterals received, or of own issued encumbered debt securities	Fair value of collaterals received, or of own issued debt securities available for encumbrance
Garantías reales recibidas por la entidad declarante	149,956	1,450,594
Equity instruments	0	717
Debt securities	77,197	1,184,247
Other collateral received	72,759	265,630
Own debt securities issued other than covered bonds or securitisation bonds for own assets	0	0

Guarantees received in the form of the temporary acquisition of assets or securities lending committed through their use in temporary assignment of assets, as is done with values relating to debt instruments.

At 31 December 2016 the total financial liabilities associated with different assets/guarantees committed in financial operations is shown below:

Exposure type	Corresponding liabilities, contingent liabilities, or securities loaned	Assets, collaterals received, and own debt securities issued other than covered bonds and securitisation bonds for encumbered assets
Book value of selected financial liabilities	1,525,839	735,102
Other sources of encumbrance	1,197	1,222
TOTAL SOURCES OF ENCUMBRANCE	1,527,036	736,324

05 INFORMATION ON THE MARKET RISK OF THE TRADING PORTFOLIO OF FINANCIAL ASSETS HELD FOR TRADING

5. INFORMATION ON THE MARKET RISK OF THE TRADING PORTFOLIO OF FINANCIAL ASSETS HELD FOR TRADING

For the purposes of calculating the capital requirements associated with the trading portfolio, it should be indicated that the Group classifies as such any positions in financial instruments and commodities which are maintained with the intention of trading ("intention of trading" being understood as maintaining positions for the purpose of selling them in the short term or benefiting in the short term from real or expected differences between the price of acquisition and the price of sale, or variations in other prices or interest rates), or which are used to hedge the elements of this portfolio.

As a result, the trading portfolio for the purposes of the Group's capital requirement calculation is distinguished from the trading portfolio defined for accounting purposes in accordance with the terms of Bank of Spain Circular 4/2004, of 22nd December 2004, which includes elements which form a part of internal hedges undertaken by the Group, and which for accounting purposes are not considered to belong to the trading portfolio. An "internal hedge" is classified in accordance with the terms of Regulation (EU) No. 575/2013 as a position which significantly offsets the risk of a position or a set of positions not included in the trading portfolio.

The following table shows the amount of the capital requirements associated with the trading portfolio on 31st December 2016:

Capital requirements in the trading portfolio (thousands of euros)	
Position risk requirements	69,499
Counterparty credit risk requirements	10,147
Total capital requirements	**79,646**

Details of capital requirements by position risk, according to instrument, are as follows:

Position risk requirements (thousands of euros)	
Requirements for position risk in equity instruments	9,901
General Risk	6,243
Specific Risk	3,658
Requirements for position risk in fixed-income instruments	59,598
General Risk	59,107
Specific Risk	491
Own funds requirements for securitisation instruments	0
Total capital requirements	**69,499**

As previously noted, the positions in fixed income include a securitisation position, but this has no capital requirements due to being fully guaranteed by the State.

It has also been mentioned previously that the bank employs an internal model to serve to contrast against levels of capital obtained from standard methodologies. All details of the methodologies of this model can be found in Annex I, point 2.

06
INFORMATION ON EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING PORTFOLIO OF FINANCIAL ASSETS HELD FOR TRADING

6. INFORMATION ON EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING PORTFOLIO OF FINANCIAL ASSETS HELD FOR TRADING

Explanatory Note 2 and Notes 9 and 12 on the 2016 consolidated report include a description of the portfolios into which equity instruments owned by the Group are classified, together with the accounting criteria for the registration and valuation applied to each of them. These notes also indicate the models and assumptions applied for determination of the value of instruments included in this portfolio. During the 2016 financial year, there was no change that significantly affected the practices and hypotheses employed in the valuation of such instruments.

The Group holds equity instruments for various purposes. In this regard, it holds stakes in entities in which it has a greater or lesser involvement in their administration and decision-making processes, used to achieve objectives aligned with the strategy and objectives of the Group as a whole, and/or representing a highly significant or relevant part of the activity, risk management or results of the Group and/or where there is an intention to maintain an ongoing shareholding relationship ("strategic stakes"). It also holds stakes in other entities for other purposes, essentially comprising the maximisation of the profit obtained, in line with risk management strategies and objectives ("portfolios held for sale purposes").

The book value of the stakes owned by the Group on 31st December 2016 not included in the trading portfolio was 82,913 thousand euros.

The following table shows a breakdown of these exposures:

Amount of exposure (thousands of euros)	
Equity instruments listed on organised markets	51,177
Equity instruments not listed on organised markets	31,736
Total	**82,913**

Gains, net of the tax impact, without impairment, on 31st December 2016 and associated with the various stakes in capital instruments included in the trading portfolio and those which are consolidated amounted to 11,968 thousand euros.

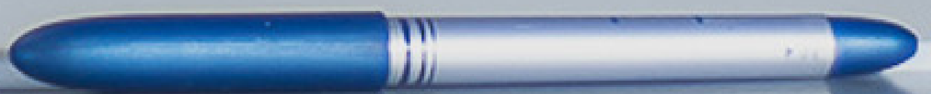
The cost of exposures and their underlying capital gains and losses are as follows:

Exposure type (thousands of euros)	Amount of exposure	Cost	Underlying capital losses	Underlying gains
Equity instruments listed on organised markets	51,177	53,476	7,197	4,898
Equity instruments not listed on organised markets	31,736	12,341	862	20,257
Valued at fair value	31,397	12,002	862	20,257
Valued by cost	339	339		
Total	**82,913**	**65,817**	**8,059**	**25,155**

The following is a breakdown of exposures based on the issuer's sector:

Classification by issuer (thousands of euros)	
Credit institutions	17,777
Other financial companies	23,772
Non-financial companies	41,364
Total	**82,913**

07
CAPITAL REQUIREMENTS FOR OPERATIONAL RISK



7. CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

Calculation of the Pillar I Regulatory Capital for operational risk is performed by applying the Standardised Approach to the Consolidated Group's significant revenue. The procedure includes the following aspects:

- Determination of relevant revenue
- Assignment of relevant revenue to business lines
- Application of weighting to the business lines
- Calculation of capital consumption

The following table indicates the capital consumptions at the close of 2016 for each business line

Business Line	Weighting	Requirements (thousands of euros)
Trading and sales	18%	14,077
Commercial banking	15%	13,884
Retail banking	12%	56
Asset management	12%	115
Payment and settlement	18%	5,653
Agency services	15%	9,221
Retail brokerage	0%	0
Business funding	18%	172
Total		**43,178**

As a complement to the capital required through operational risk, the bank developed a system to guarantee its capacity to meet obligations associated with its activity as a depository, employing external data on losses of national and foreign banks performing custodianship activities and asset management entities and a scenario analysis.

Based on this methodology, a provision was established to cover the probable losses quantified which, as at 31 December, amounted to 54.4 million. Additionally, as mentioned in section 3.2.5, the bank applies a more stringent methodology than that required by regulations, under the Pillar 2 framework.

08
INTEREST RATE RISK IN POSITIONS NOT INCLUDED IN THE TRADING PORTFOLIO

8. INTEREST RATE RISK IN POSITIONS NOT INCLUDED IN THE TRADING PORTFOLIO

Interest rate risk is the risk affecting or potentially affecting results or capital as a result of adverse movements in interest rates in the investment portfolio.

The measurement and analysis of this risk is performed by taking into consideration the following aspects in accordance with the premises described below:

- It is conducted on a permanent basis.
- An analysis is performed of the effects on the Brokerage Margin and Economic Value which could result from variations in interest rates in the various currencies in which significant exposures are maintained.
- The analysis includes all positions that are sensitive to interest rate risk, including interest rate derivatives, both implicit and explicit, and excluding positions that form a part of the trading portfolio.

Based on these analyses, measures are adopted as required in order to guarantee the optimal management of this risk.

Gap analysis indicates the exposure to interest rate risk on the basis of the maturity structure and/or repricings of positions. This analysis enables interest risk positions to be ascertained over different terms, and also aims to ascertain where potential impacts may affect the Financial Margin and Economic Value. The data at the close of 2016 are set out in the following table:

(thousands of euros)	0<=1M	1<=2M	2<=3M	3<=4M	4<=5M	5<=6M	6<=12M	1<=2Y	2<=5Y	5<=10Y	10<=20Y	20<=30Y
Assets	3,859,226	510,238	232,537	143,790	90,656	213,117	1,150,889	560,933	316,930	119,462	4,805	68,420
1. Cash and deposits with central banks	2,166,286	0	0	0	0							
2. Available-for-sale financial assets	169,034	452,488	232,340	111,188	88,248	212,416	1,146,436	560,933	316,930	119,462		
2.1 Securities representing debt	169,034	452,488	232,340	111,188	88,248	212,416	1,146,436	346,398	316,930	119,462		
2.2 Capital instruments								214,535				
3. Credit investments	68,957	57,751	197	32,602	2,407	700	4,453				4,805	
3.1 Securities representing debt	23,299	1,924	0	31,698	2,049						4,805	
3.2 Customer credit	45,402	55,827	197	904	359	700	4,453					
3.3 Credit institution deposits	255											
4. Equity Portfolio												
5. Hedging derivatives	1,454,950											
6. Stakes												68,420
Liabilities	4,752,930	203,472	28,270	8,314	2,024	543	793,327	220,115	250,432	20,948	838	143
1. Financial liabilities, amortised cost and fair value with changes in P&L in P+L	-115,512	3,472	2,270	314	2,024	543	2,327	115	355	448	838	143
1.1 Credit institution deposits	-115,512	3,472	2,270	314	2,024	543	2,327	115	355	448	838	143
1.2 Temporary assignment of assets												
1.3 Debt represented by tradable securities												
2. Client deposits	4,868,441								60,627			
3. Hedging derivatives		200,000	26,000	8,000			791,000	220,000	189,450	20,500		
GAP	-893,704	306,766	204,266	135,476	88,632	212,573	357,562	340,818	66,498	98,514	3,967	68,277
Accumulated GAP	-893,704	-586,937	-382,671	-247,195	-158,563	54,011	411,572	752,390	818,888	917,402	921,369	989,645

As mentioned above, the most representative indicators employed internally for management identify the levels of structural interest rate risks based on sensitivities to interest rate movements. The values of these indicators are set out below:

Indicator	Indicator description	
Economic Value	The relationship between the economic value and the highest quality eligible capital.	147.86%
Sensitivity to Economic Value with respect to Tier I and II	Percentage of eligible capital that would be represented by the loss in Economic Value that would be caused by a sudden variation of 200 b.p. on the interest rate curves.	4.64%
Sensitivity to Economic Value with respect to EVC	Percentage of economic value that would be represented by the loss that would be caused by a sudden variation of 200 b.p. on the interest rate curves.	3.13%
Intermediation Margin Sensitivity	Sensitivity of the one-year projections for the financial margin to sudden variations of 200 b.p. on the interest rate curves.	15.09%
VaR – Banking Book	Percentage of Tier 1 capital committed to the VaR of the Banking Book.	0.22%

09 STRUCTURAL LIQUIDITY RISK

9. STRUCTURAL LIQUIDITY RISK

This is the risk affecting or potentially affecting results or capital as a result of the bank being incapable of meeting its payment obligations upon maturity, without incurring unacceptable losses.

This risk reflects the probability of incurring losses or having to give up new business or an increase in current business through an inability to fulfil commitments upon maturity in a normal manner, or being unable to fund additional needs at market costs. In order to mitigate this risk, the liquidity situation is regularly monitored together with potential actions to be performed, and measures are put in place in order to be able to re-establish the overall financial balance of the bank in the event of a potential liquidity shortfall.

The measurement and analysis of this risk is performed by taking into consideration the following aspects in accordance with the premises described below:

- It is conducted on a daily basis.
- Liquidity situations are analysed over different timeframes.
- Compliance with the regulatory ratios is ensured.
- They are accompanied by market indices and data affecting liquidity.
- The analyses include all those positions which generate or could generate cash movements.

The bank maintains a high degree of stability in terms of liquidity sources, adequate capacity for wholesale market calls and the availability of sellable assets. All of this results in a comfortable liquidity situation.

Indicators	Indicator description	2015
LCR (Liquidity Coverage Ratio)	Ratio defined in Section 1 of Article 412 of Regulation (EU) 575/2013.	234%
Liquidity Ratio Vs Stable Financing	Overall percentage of liquidity originating from stable financing.	104%
Short-term Ratio	Ratio between collections and payments in a 1-month period.	250%

A key factor that demonstrates Cecabank's comfortable liquidity status is the reserve of the set of highly liquid assets that it holds for the purpose of acting as a last resort in situations of maximum market stress.

At the end of 2016, the balance of this reserve of liquid assets to deal with potential liquidity needs was €6,879 million, predominantly comprised of the balance of assets eligible for financing operations with the ECB (97.64%).

The following table shows the balance of liquid assets eligible for financing operations with the European Central Bank and arranged according to the levels that affect the adjustments (haircuts) applicable when being discounted. The values below already include these adjustments:

Asset type	2015
Cash and BC (Central Bank)	1,979,405
Level I	3,573,473
Level II	582,708
Level III	423,683
Level IV	117,066
Level V	40,892
Not Eligible	162,029
TOTAL	6,879,256

Cecabank regularly conducts stress tests on the liquidity ratios, as indicated in section 7 of Annex I. Among other factors, these stress scenarios take into account a prolonged closure of the capital and interbank market, the activation of contingent lines and deposit flight. The result of these exercises is that the bank has a sufficient buffer of liquid assets in place to withstand a situation of prolonged stress.

NSFR (Net Stable Funding Ratio)

In terms of the net stable funding ratio, its final definition was approved by the Basel Committee in October 2014, with its transposition into national regulations still pending.

Cecabank benefits from a high level of stable customer deposits, whilst its investments are in short-term assets that are very liquid in nature and have a high credit rating. All of this enables a balanced liquidity structure to be maintained, which is reflected in the levels of the NSFR comfortably above 100% at the close of 2016, even though this requirement does not come into force until 2018.

10
LEVERAGE

10. LEVERAGE

This ratio was established in Basel III as a not sensitive to risk measure, aiming to limit the possibility of excessively increasing companies' balance sheets in relation to their available capital.

Cecabank also monitors the solidity and strength of the financial institution, relating the size of balance sheet to the level of capital, measuring solvency in terms of debt and without considering the quality of risks in the portfolio.

The calculation of the leverage ratio is defined as the ratio between the Tier 1 eligible own funds and a non-weighted measurement of exposure calculated in accordance with the definition established in the EU Delegated Regulation 62/2015.

The following chart shows the components taken into account for the leverage ratio calculated as at 31 December 2016; both the phase-in approach currently in force and the fully loaded approach which will be implemented as soon as the transition timetables are finalised:

(thousands of euros)	Phase-in	Fully Loaded
Tier I	**835,348**	**866,909**
Total Exposure	**7,455,384**	**7,486,944**
Derivatives	163,673	163,673
Securities lending and financing	203,307	203,307
Memorandum accounts	95,648	95,648
Other assets	7,094,345	7,094,345
Adjustments	-101,589	-70,029
Leverage ratio [8]	**11.20%**	**11.58%**

Annex VII shows in further detail the balancing of total exposure corresponding to the leverage ratio with relevant information from financial statements.

Controlling the risk of leverage is incorporated within the standard monitoring of risk parameters. There is a limit that is monitored based on the information received by the Risk Committee and the Assets and Liabilities Committee in order to guarantee that the ratio comfortably exceeds the level that is taken as the reference value (3%) and is currently pending its definitive incorporation into the solvency regulations.

Monitoring is performed alongside the supervision of solvency levels and it includes an evaluation of both the bank's exposure and available own funds.

[8] Contrary to the previous year, own funds at the close of 2016 did not consider the year's results that the Board of Directors agreed to retain as a reserve, of a value of €57.3 million. If it had, the leverage ratio would have been placed 11.97% and at 12.34% without the transitional application of the standards (fully loaded).

11 INFORMATION ON REMUNERATION

11.1 Remuneration of Cecabank personnel 50

11.1.1 Remuneration Committee 50

11.1.2 General principles of the remuneration policy 51

11.1.3 Risk-adjusted group identified 51

11.1.4 Relationship with the bank's profit 52

11.1.5 Characteristics of the remuneration system of the identified group 52

11.1.6 Ratio between fixed and variable remuneration 54

11.1.7 Profit-related criteria on which the right to shares, options or variable components of remuneration are based 54

11.1.8 Main parameters and purpose of the variable remuneration plans 54

11.1.9 Aggregate quantitative information on remuneration by area of activity of the identified group 55

11.1.10 Aggregate quantitative information on remuneration of the identified group and members of the Board of Directors 56

11. INFORMATION ON REMUNERATION

With regard to reporting remunerations to the market, and in line with Bank of Spain Circular 2/2016 of 2 February, which clarifies the Spanish legal ruling to EU Directive 2013/36 and EU Regulation no. 575/2013, Cecabank outlines here its remunerations policies and practices, relating to managers, senior management, employees engaging in risk, employees carrying out duties relating to control systems, and any other worker whose overall remuneration may be similar to that already mentioned.

11.1 Remuneration of Cecabank personnel

11.1.1 Remuneration Committee

The Board of Directors of Cecabank has a Remuneration Committee, in accordance with the provisions of the regulation, supervision and solvency of credit institutions Act 10/2014, of 26th June, and its enacting regulation, as well as Act 31/2014 of 3rd December, which modifies the Corporation Act in order to improve corporate governance.

The Remuneration Committee has regulations specifying the following:

1.- In accordance with the provisions of Royal Decree 84/2015, of 13th February, which enacts Act 10/2014, of 26th June, on the regulation, supervision and solvency of credit institutions, the Remuneration Committee has the following functions:

  a) Preparing decisions in relation to remuneration, including decisions that have repercussions for the bank's risk and risk management, that must be adopted by the Board of Directors.

  b) Reporting information on the General Remuneration Policy of the members of the Board of Directors, general directors or similar positions, as well as the individual remuneration and other contractual conditions of the members of the Board of Directors who perform executive duties, and ensuring compliance therewith.

  c) Reporting information on the Remuneration Policy of senior executives, employees that assume risk, employees performing control functions and any employee that receives an overall remuneration that falls within the same scale of remuneration as applies to senior executives and employees that assume risk, whose professional activities significantly coincide with their risk profile.

  d) Directly supervising the remuneration of senior executives responsible for risk management and in charge of the bank's compliance functions.

  e) Reporting information on the incentive plans for directors of employees linked to the bank's profit and/or other variable indices/components.

2.- The Remuneration Committee may also report on any issues assigned to it in relation to the remuneration and compensation system, amounts and raises, of the Board of Directors, Executive Directors and executive personnel.

3.- When preparing the decisions, the Remuneration Committee takes into consideration the long- term interests of the bank's shareholders, investors and other stakeholders, as well as the public interest.

4.- The Committee reports its activity and the work conducted to the Board of Directors in an appropriate and timely manner.

5.- The Committee drafts an annual report on its activities over the course of the financial year.

The composition of the Remuneration Committee can be consulted in Annex III of this document.

In 2016 the Remuneration Committee held two meetings.

The allowance established by the Board of Directors for the members of the Committee, for their attendance at each of the meetings, is €1,379.31 in the case of committee members and €2,758.62 in the case of the Chairman.

In its session of 24th May 2016, at the proposal of the Remuneration Committee, the Board of Directors approved the remuneration policy applicable from 1st January 2016.

11.1.2 General principles of the remuneration policy

The remunerations policies must be understood as an instrument of internal governance and risk management at the bank, and as a result, the main objective in this regard is to align the objectives of the employees themselves with the long-term interests of the bank. To this end, the valuation of the components of performance-based remuneration focuses on long-term results, and takes into consideration all outstanding risks associated with these results.

In this regard, the principles governing this remuneration policy are as follows:

- Multiplicity of elements
- Prudent and effective risk management
- Alignment with long-term interests
- Suitable ratio between the fixed and variable components
- Internal equality and external competitiveness
- Supervision and effectiveness
- Flexibility and transparency
- Simplicity and individualisation

As well as conducting an annual internal evaluation centrally and independently from the application of the remuneration policy of the identified group, Cecabank commissioned an evaluation of said remuneration policy by KPMG Abogados S.L., as an external consultant.

11.1.3 Risk-adjusted group identified

A distinction is made between four groups (hereinafter, in aggregate terms, the Identified Group) that coincide to a significant degree with the risk profile and which would be affected by the new requirements in terms of remunerations:

- Group 1: Senior executives, including the General Director and Chief Executive Officer.
- Group 2: Employees belonging to the Financial Trading Division.
- Group 3: Head of the Capital Market and Corporate Finance Division.
- Group 4: Supervisors of the control functions not included in the above groups.

Situation as at 31/12/2016	Number of people
Group 1	8
Group 2	34
Group 3	1
Group 4	3

11.1.4 Relationship with the bank's profit

The objective of Cecabank's annual variable remuneration system is to establish a relationship between the profit obtained and the amount of remuneration, which must furthermore compensate the level of achievement, performance, effort and responsibility, and be aligned with the long-term interests of the bank, without involving any excessive risk-taking.

The potential variable remuneration is established taking into account the achievement of objectives and the performance evaluation, based on certain reference scales that are set out for each functional level, taking into account the competitiveness of the market, and which are specific in the case of employees that form part of the Steering Committee.

The variable remuneration charge is also determined by whether the budget is attained, and is adjusted based on the relationship between the profit for the year in question, and the one immediately prior to that.

Moreover, in the event that any employee, within a financial year, has received a contribution by way of a complementary pension and, in addition, this is for an amount in excess of twice the reference variable remuneration that corresponds to their functional level, the employee loses their entitlement to the bonus accrued during the financial year in question.

With regard to the control units, the method for establishing the remuneration of the key figures does not compromise their objectivity and independence, nor create conflicts of interest in their function of advising the Board of Directors and the Remunerations Committee. The level of remuneration of the employees of the control and management units allows the bank to recruit qualified personnel with the appropriate experience for these functions.

Financial Division

The variable remuneration model for the Financial Division of Cecabank comprises the distribution of a percentage of the profit obtained by the Division, after expenses. In addition, corrective elements are applied that enable the final amounts paid to be adjusted (upwards or downwards). These reductions are made according to: (i) the degree of difficulty of the different desks in the process of obtaining profit, and (ii) an evaluation of any exceptional situations which may have occurred during the process, as set out in the Performance Assessment performed by the bank, at both the quantitative and qualitative levels.

Therefore, variable remuneration for the Financial Division is determined by whether profits are obtained, and whether they exceed the allocated budget. Distribution by departments, panels, and individuals is carried out based on the contribution each has made to the profits.

11.1.5 Characteristics of the remuneration system of the identified group

Risk tolerance as defined by the Board determines that remuneration policies have to reinforce the control environment and incorporate incentives to keep the risk profile within the defined tolerance levels, and, in this way, they help align the bank's objectives with the assumed risk levels, to avoid the improper assumption of risk and incentivise their rigorous management.

These are the strategies employed to comply with the aforementioned objectives:

- Risk adjustments prior to accrual

  Groups identified as 1, 3 and 4
  The accrual of variable remuneration for this group is determined by compliance with the tolerance levels defined by the main indicators determining the risk profile of the bank; specifically, maintaining the market risk limits and solvency targets defined by the Board of Directors. Profitability thresholds are also fixed for the capital involved in activities undertaken.

  Group 2
  Remuneration for this group is determined by compliance with risk levels allocated to activities carried out by the Financial Division. Thus, the total amount of variable remuneration is determined by the division remaining within market risk limits, and the profit obtained by unit of risk, the profitability of capital used for activities undertaken, and maintaining the desired liquidity profile.

- Risk adjustments after accrual

Regardless of the identified group, the approach to be employed as the technique for application of ex-post risk adjustment will be the malus and clawback methods.

"Malus". This is understood as any technique preventing the total or partial maturity of deferred remuneration. In specific terms, this maturity is prevented in the following cases:

(i) Evidence of disloyal behaviour or serious error (for example, breach of internal regulations, such as the Securities Market Internal Conduct Regulation or the Manual on the Prevention of Money Laundering and Financing of Terrorism);

(ii) Evidence of the implementation of personal hedging or insurance strategies intended to reduce risk adjustment effects in variable remuneration;

(iii) A significant decline in the financial performance of the bank or the corresponding business unit;

(iv) A significant failure in risk management by the bank or the corresponding business unit; and

(v) Situations that jeopardise the fulfilment of the bank's solvency objectives.

"Clawback". The variable remuneration already paid to the members of the identified group, whether deferred or otherwise, shall be partially or totally recovered by Cecabank in the event that, within the two years immediately following payment, it is demonstrated that the payment and, as such, the non-application of the adjustment mechanisms, has been partially or totally made based on information that has been proven to be false or seriously inaccurate, a posteriori, or that risks arise that were assumed during the period in question, or other circumstances that are unforeseen and unaccepted by the bank that have a significant negative impact on the income statement of any of the financial years in which the variable remuneration was applied.

In particular, the circumstances under which a member of the identified group in Cecabank must repay to the bank part or all of the variable remuneration received are as follows:

1. In the event that Cecabank reformulates its annual accounts on the condition that, in accordance with this reformulation, it results that a lower variable remuneration is due to be paid than the amount actually paid, or that no variable remuneration would be due in accordance with the system of variable incentives implemented by the bank.

2. In the event that the payment of the variable remuneration was based on objectives which were achieved as a direct or indirect consequence of:

   (i) A fraudulent activity by the individual;

   (ii) The occurrence of circumstances that lead to the lawful disciplinary dismissal of the employee in accordance with the applicable employment legislation or, in the case of a board member, the occurrence of circumstances that lead to the termination of their role as director due to breach of their duties, an act or omission that causes damages to the bank, or the combined occurrence of the circumstances required to entitle the bank to bring a derivative suit against the individual in question;

   (iii) In the event that, by their action or omission, the individual has caused damages to Cecabank through fault or negligence.

   (iv) In the event that the individual has been penalized for a serious and intentional breach of any of Cecabank's internal regulations that may be applicable.

   (v) In the event that the individual has been penalized for a breach of the rules on order and discipline contained in Title IV of Act 10/2014, of 26th June, on the regulation, supervision and solvency of credit institutions, classified as serious or extremely serious. The sanction imposed must be confirmed and accredited by a senior competent body.

Remuneration system deferral clauses

Groups identified as 1, 3 and 4

On the basis that the applicable Regulation requires credit institutions to comply with the established requirements "in a manner proportional to their size, nature, scope and the complexity of their activities", this deferral requirement does not apply in cases in which the total gross annual variable remuneration to be received within a year is more than €50,000, or, despite being below this limit, it accounts for more than 50% of the gross annual fixed remuneration of the person in question.

In the case of the General Director and the Chief Executive Officer, a deferral of 60% of the amount payable is applied, in equal parts, over the 5 years following accrual. In all other cases that involve a deferral, a rate of 40% is applied, being paid in equal parts, over the following three financial years.

Group 2

There is a deferral of the variable remuneration accrued in accordance with the following: 40% will be paid in cash upon conclusion and evaluation of the result for the financial year, with the remaining 60% to be paid in equal parts over the next 4 financial years after deferral.

In addition, in the case of this group, a long-term oversight mechanism is established (cumulative over 8 years) regarding the relationship between net profit obtained and the amount of variable remuneration paid out (corresponding to that paid out in the current year, plus the part corresponding to the deferral of previous years). Thus, the allocation of the variable remuneration deferred in previous years will only be carried out if it does not exceed the limit mentioned. The activation of this limit involves removing the right to receive any excess that would have been produced.

11.1.6 Ratio between fixed and variable remuneration

In general terms, for Cecabank personnel, the amount of variable remuneration per employee must not exceed, as a rule, 20% of total remuneration, with the final variable being adjusted in all cases to individual achievement of objectives and performance.

These reference limits for the members of this group are:

Group 1

In the case of the General Director and the Chief Executive Officer, the amount of variable remuneration must not exceed, as a rule, 100% of total remuneration, with the final variable being adjusted in all cases to individual achievement of objectives and performance.

With respect to all other members of this group, the amount of variable remuneration must not exceed, as a rule, 40% of total remuneration, with the final variable being adjusted in all cases to individual achievement of objectives and performance.

Group 2

This group has a limit on variable remuneration set at a maximum of 100% of fixed remuneration, unless authorised by the General Shareholders' Meeting, in which case the level may be increased to 200%. The General Shareholders' Meeting of 22nd March 2016 approved a level of variable remuneration of up to 200% of fixed remuneration for certain positions.

Groups 3 and 4

The amount of variable remuneration must not exceed, as a rule, 30% of total remuneration, with the final variable being adjusted in all cases to individual achievement of objectives and performance.

11.1.7 Profit-related criteria on which the right to shares, options or variable components of remuneration are based

In the 2016 financial year, in terms of the application of the principle of proportionality, Cecabank offset this requirement for all of the identified group.

Once the new European Banking Authority Directives come into force in 2017, the Remunerations Policy will be revised with the aim of allowing for remuneration mechanisms through non pecuniary instruments.

11.1.8 Main parameters and purpose of the variable remuneration plans

Cecabank believes that its professionals are a key factor in achieving the bank's objectives and it is aware of the impact of remuneration on motivation and talent retention.

Each year, Cecabank evaluates individual and group performance in order to establish overall performance management.

For these purposes, the bank has implemented a performance management system that, based on the competences identified for Cecabank and the functions performed in the job position by the employee, facilitates the evaluation and observation of behaviour or conduct with respect to which there may be an opportunity for each professional to grow and improve.

The evaluation measures a series of competences with a specific requirements level set for each functional level, with the aim of identifying strengths and areas for improvement. Moreover, an analysis of the Functional Job Execution is conducted in order to ascertain how the professional under evaluation performs the duties corresponding to their position.

Once the final rating is obtained from the performance management system, the following actions may be taken:

- Remunerative: an input that facilitates each individual's position within their remuneration scale. It is also an element involved in the determination of the percentage of variable remuneration to be received, as a complement to the level of achievement with respect to objectives.
- Competence-based: by comparing the evaluation conducted and the competence profile of the functional level, the profile's strengths and points for improvement are obtained.
- Developmental: drafting an improvement plan that, having obtained the result of the evaluation, sets out the future plans of the professional under evaluation, with the aim of the areas identified as requiring improvement.

In this regard, when evaluating the individual performance of employees, Cecabank takes into consideration both financial and non-financial criteria (indicated above). The appropriate combination of the two depends on the tasks and responsibilities of the employee.

Financial criteria must cover a sufficiently long time period in order to reflect the risk of the employee's actions, and incorporate risk adjustment and economic efficiency measures. Negative performance from the non-financial perspective, in particular unethical behaviour and those in violation of regulatory compliance, cancels out any positive financial performance.

Conversion of the measurement of performance into a variable remuneration component for each employee includes an adjustment for present and future risks, including quantitative and qualitative measures. The final risk adjustment depends on the specific group to which the employee belongs, as outlined above.

11.1.9 Aggregate quantitative information on remuneration by area of activity of the identified group

(thousands of euros)	Investment banking	Commercial banking	Asset management	Other	Total
Number of employees in the identified group	40	----	----	10	50
Total remuneration for the identified group	10,972,457	----	----	2,157,896	13,130,353

11.1.10 Aggregate quantitative information on remuneration of the identified group and members of the Board of Directors

Type of remuneration

(euros)	Executive directors	Non-executive directors	Senior managers	Other employees
No. of beneficiaries	1	10	9	40
Remuneration Main Company	**530,564**	**275,862**	**3,090,170**	**9,496,419**
Allowances	15,172	275,862	----	----
Fixed	244,543	----	1,520,379	3,136,985
Variable	60,000	----	1,464,964	6,202,950
Percuniary	60,000	----	1,464,964	6,202,950
Shares	----	----	----	----
Instruments related to shares	----	----	----	----
Other Benefits (in kind,Health Insurance)	38,804	----	47,629	89,175
Supplementary social provision	172,045	----	57,198	67,309

The above table does not include the amount of €22,068.96 corresponding to the allowances of a member of the Board of Directors, as this was paid directly to the entity that they represented.

(euros)	Executive directors	Non-executive directors	Senior managers	Other employees
Remuneration at other entities	----	----	**13,200**	----
Allowances (euros)	----	----	13,200	----
No. of beneficiaries	----	----	1	----

Cumulative deferred remuneration, pending payment at close of the financial year

(thousands of euros)	Executive directors	Non-executive directors	Senior managers	Other employees
Deferred remuneration pending payment	----	----	1,737,659	9,247,565
Vested part	----	----	----	----
In cash	----	----	----	----
Other than cash	----	----	----	----
Non-vested part	----	----	1,737,659	9,247,565
In cash	----	----	1,737,659	9,247,565
Other than cash	----	----	----	----

Deferred remuneration from previous financial years paid out during the financial year

(thousands of euros)	Executive directors	Non-executive directors	Senior managers	Other employees
Deferred remuneration paid out during the year	----	----	694,063	4,335,956
Paid	----	----	694,063	4,335,956
Reduction through adjustments from performance results	----	----	----	----

Payments for new recruitment included in the identified groups

In 2016 new staff were added to the identified group, whose total remuneration cost to the bank were €32,659.

Staff indemnities included in the identified group

In the identified group there is an agreement in place for cases of early termination of contract, which could reach €2,892 thousand, although during 2016 no compensation payments were made to staff included in the identified group.

Number of individuals that receive remuneration of 1 million euros or more during the financial year

Nobody receives remuneration of €1 million or more for the financial year.

ANNEX

ANNEX I: Risk Management Policies and Objectives 59

1. Credit Risk 59
2. Risks associated with the trading portfolio 62
3. Operational risk 66
4. Regulatory compliance risk 70
5. Risk in equity instruments not included in the trading portfolio 70
6. Interest rate risk in the Banking Book 71
7. Liquidity Risk 72
8. Other Risks 74

8.1 Reputational risk 74

8.2 Business risk 74

ANNEX II: Definitions of Default and "Impaired Positions" and Criteria Applied to establish the amount of Impairment Losses 76

ANNEX III: Composition of Cecabank's Committees 78

ANNEX IV: Total amount of the risk exposure 80

ANNEX V: Information on own funds (phase-in and fully loaded) 81

ANNEX VI: Conciliation of the own fund items with the audited financial statements 83

ANNEX VII: Conciliation of the measurement of the total exposure corresponding to the leverage ratio and financial statements 84

ANNEX I: RISK MANAGEMENT POLICIES AND OBJECTIVES

Below, in accordance with the information advanced in Title 2 of this document, this Annex includes detailed information on the management objectives and policies connected with each of the risks having a significant impact:

1. Credit Risk

Objectives, general policies with regard to assumption and management of risks

In 2016 the Board of Directors combined its general policies on risk assumption and management into one document, involving the development of the bank's current Risk Tolerance Framework.

This document is the foundation the management of internal risk is based on, and determines the governance and monitoring structure. It also determines the internal limit structure, and processes for risk admission, assessment, mitigation, and coverage, as well as pricing.

The policy highlights that the portfolio is made up of, primarily, exposures with a low level of risk and shows that other risks with a worse credit rating are rare, exceptional, and few in number.

Credit Risk Processes and Management

This is one of the basic risks to which the Group is exposed through its various business units.

Credit Risk is defined as the risk which affects or could affect results or capital as a result of a breach by a borrower of the commitments set out in any contract, or the possibility that it might not act as agreed. This category includes:

1. **Principal risk.** Resulting from a failure to repay the principal.
2. **Substitution or counterparty risk.** This refers to the capacity and intention of the counterparty to comply with its contractual responsibilities at the time of maturity. Credit risk exists throughout the lifespan of the operation, but may vary from one day to another because of settlement mechanisms and changes in the market valuation of operations.
3. **Issuer risk.** This risk arises when trading financial assets of an issuer on primary and/or secondary markets, and is defined as the risk that a loss in their value could occur as a result of a change in the market perception of the economic and financial strength of the issuer.
4. **Settlement or handover risk.** This is the risk that one of the parties might settle the transaction and that the agreed consideration is not received.
5. **Country risk.** This is the credit risk which applies to the debts of borrowers in another country because of circumstances beyond the standard commercial risk. It may take the form of a transfer risk or sovereign risk, and other risks derived from international financial activity.
6. **Concentration risk.** This measures the degree of concentration of credit risk portfolios under different relevant dimensions: geographical areas and countries, economic sectors, products and client groups.
7. **Residual risk.** This incorporates risks derived from strategies for dynamic hedging, credit risk mitigation techniques, securitisations, etc.

In order to manage credit risk properly, a number of procedures are established, the key elements of which are described below.

Credit Risk Analysis

The process of evaluating the credit rating of counterparties and the assignment of limits are closely connected. As a result, an internal rating is granted to the various counterparties with which operations are desired. This internal rating contributes to the establishment of the maximum amount of risk allowed with each entity. It also constitutes the baseline for the admission and monitoring of the risk.

The rating is the result of the analysis of various quantitative and qualitative factors, which are assessed independently and are given a specific weighting for the calculation of the final rating. The result is an independent analyst valuation, which combines the perception of the credit rating of those counterparties with which operations are intended.

Credit Risk Control and Monitoring

The monitoring of credit risk is performed by means of active portfolio management. The fundamental aim is to detect sufficiently in advance any counterparties which may register some impairment in their credit quality or weakening of guarantees. As an integral part of the monitoring process, a list is kept of all counterparties requiring special monitoring. They are identified and kept on so-called FEVE (signings under special monitoring) or FRO (signings with operating restrictions) lists.

As in the analysis process, ratings are an additional strand in the risk monitoring process, in addition to the country and business type, among other variables.

In addition, and as a part of the monitoring of credit risks incurred by market operations, in collaboration with Legal Consultancy active management is performed, and monitoring of the adequacy of the contractual documentation on which the operations are based.

The control process comprises all activities connected with the permanent verification of compliance with all credit risk, counterparty and settlement limits established, the management and reporting of surpluses, and the maintenance and updating of the parameterisation of products, clients, countries, economic groups, ratings, contractual compensation contracts and financial guarantees in the control tools.

Risk limit structure

The general credit risk limit structure (lying within the Risk Tolerance Framework and the General Framework of Credit Risk Management) is divided into two major groups.

On the one hand, there are the limits granted individually to a counterparty. On the other, there is a series of limits associated with certain activities: country risk limits and operational limits for private fixed income and for variable income activities, among others.

Credit risk measurement methodology

The methodology applied for the calculation of credit risk exposure is the standard set out in the Solvency Regulation. In addition, in the case of products subject to counterparty risk, the bank applies the position valuation method to the market prices of the various operations, with the addition of certain add-ons or coefficients which, when applied to the notional value, incorporate the measurement of the potential risk of each operation until maturity. Management tools provide information on the consumption of limits in real time for each counterparty and economic group, allowing for the application of ongoing monitoring of any modification and/or excess in the limits.

The existence of guarantees and collateral is taken into consideration with regard to reduced credit risk consumption in operations covered thereby, and also in accordance with the criteria established in the applicable regulations.

Counterparty risk

It is the risk that the counterparty could default upon payment before the final cash flow settlement of any of this operation. It includes, the following types of operations, among others: derivative instruments, operations with a buy-back commitment, security loan operations.

Derivative instruments can also present, depending on the nature of the specific transactions, adverse correlation effects between exposure to risk with a specific counterparty and credit quality, in such a way that when it decreases, exposure to the counterparty increases.

Managing wrong-way risk forms part of the admission and monitoring of risks process. Given Cecabank's activities, these cases are exceptional, which means they can be treated on an individual basis; usually through a reduction of the exposure to the operation in question.

With respect to correlation between the guarantee and the guarantor, because cash is mainly received as collateral in the world of derivatives, there is almost no risk of adverse effects due to the existence of correlation. Any potential adverse effects due to correlations in non-cash collateral are not significant.

Concentration risk

Concentration risk, within the scope of credit risk, represents an essential element for management. Continuous monitoring is performed of the degree of concentration of credit risk in accordance with various relevant classifications: countries, ratings, sectors, economic groups, etc.

For the management of concentration risk, prudent criteria are applied so as to be able to manage the limits available with sufficient leeway with regard to the legal concentration limits established.

As for the level of sector concentration, this is the consequence of the Group's specialisation in the execution of all manner of activities, operations and services inherent in the banking business in general, or directly or indirectly associated with this. As a result, financial sector risks account for around 84% of overall exposure, although in the evaluation of this degree of sector concentration it must be borne in mind that the exposure is maintained within a highly regulated and supervised sector.

Contractual compensation and financial guarantee or "collateral" contracts.

The general policy regarding trading of financial derivatives and repo-style operations, and securities lending is to sign netting agreements prepared by national or international associations. In the event of a breach by the counterparty, these contracts allow for the foreclosure of the operations covered by them and offsetting, which means that the parties will be able only to demand the net balance of the product of the settlement of such operations.

For financial derivatives, ISDA Master Agreements are formalised, subject to English law or that of the State of New York, or otherwise the CMOF Master Agreement, subject to Spanish law, depending on the counterparty. Meanwhile, for hedging derivative financial instruments beyond a certain risk level, financial guarantee agreements are formalised, namely the Credit Support Annex for the ISDA Master Agreements and Annex III for CMOF.

In the case of repo-style operations, the Global Master Repurchase Agreements (GMRA) are signed, while for securities lending, the European Master Agreement (EMA) or the Global Master Securities Lending Agreements (GMSLA) are formalised. In this type of contractual netting agreement, the clauses incorporate the regulation of the financial guarantees or "margins" for the operations.

At present, most collateral (to be handed over or received) in derivatives takes the form of cash, although market practices are demonstrating that non-cash collateral usage is increasing, a trend which Cecabank is taking into consideration in its active collateral management.

Credit risk exposure in accordance with the credit ratings

On 31st December 2016, some 75.4% of exposure (without taking into consideration public sector, nor central counterparty (CCP) with direct or indirect access) has been given a rating granted by one of the credit rating agencies recognised by the Bank of Spain.

The distribution by rating level of the rated exposure is as follows:

Level	Rating	Percentage
1	AAA-AA	5.5%
2	A	33.7%
3	BBB	36.1%
4	BB	20.5%
5	B	4.2%
6	CCC and lower	0.0%
	Total	**100%**

2. Risks associated with the trading portfolio

Market risk management objectives, policies and processes

Market risk is defined as the risk affecting results or capital and resulting from adverse movements in the prices of bonds, securities, commodities and exchange rates in operations registered in the trading portfolio. This risk arises from market-making activities, trading, and adoption of positions in bonds, securities, currencies, commodities and derivatives (based on bonds, securities, currencies and commodities). It includes foreign currency risk, defined as the current or potential risk affecting results or capital and resulting from adverse movements in exchange rates in the investment portfolio.

The exposure of the bank to this type of risk is derived from various financial factors affecting market prices. These factors essentially include, without being limited to, the following:

- Levels of interest rates in each country and product type
- Spread levels above the risk-free curve with which each instrument is quoted (including the credit and liquidity spreads)
- Market liquidity levels
- Pricing levels
- Exchange rates
- Levels of volatility in the above factors

The concept of Value at Risk (VaR) provides an integrated measurement of market risk, covering the fundamental aspects of the risk: interest rate risk, exchange rate risk, variable income risk, credit spread risk and the risk of volatility in the preceding factors.

Interest rate risk

Interest rate risk is the exposure to market fluctuations as a result of changes in the general level of interest rates. Exposure to interest rates can be separated into the two following elements:

- Directional (sloping) risk, and Base risk

  Directional risk is the sensitivity of revenue to parallel movements in the interest rate curve, while the interest rate curve risk is the sensitivity of gains to a change in the structure of the rate curve, either through a change in the slope or in the form of the curve.

  Basis risk is the potential risk caused by unexpected changes in the margins between the different interest rate curves with regard to those maintaining portfolio positions. Market liquidity conditions, and also the perception of the specific risk, are typically the triggers for this type of movement (although other factors may also exert an influence).

  All interest rate risks described are tracked by means of the VaR, in which all relevant factors are included for their measurement, including all of the different curve time frames and all the relevant curves (including specific sector curves for each level of credit rating).

- Spread and illiquidity risk

  The spread risk is derived from holding positions in private fixed income and credit derivatives, and is defined as the exposure to the specific risk of each issuer.

  Certain circumstances in the market and/or the issue itself could increase these spreads because of the liquidity premium.

Currencies

Given its activities in FX and international capital markets, the Group is exposed to the two following currency risk elements.

- Exchange Rate Risk

  Exchange rate risk is derived from the net positions of a currency against the Euro or of one currency against another. As a result, exchange rate risk is the potential movement of cash exchange rates affecting the value of the positions.

- Interest Rate Margin Risk

  The risk regarding the net interest rate margin is derived from the difference between the interest rates of two different currencies, and its effect on term positions in foreign currencies.

  Both risks are measured by the VaR, incorporating the foreign currency rate curves and exchange rates as risk factors.

Equity

This represents the risk of incurring losses as a result of the variation in share prices.

Volatility risk

Operations on options based on different underlying assets are typically performed in portfolio management.

The most immediate way of measuring the risk of these options is through their Delta, a parameter which approximates the risk of an option as an equivalent position in another simpler (linear) instrument.

However, the non-linear nature of the value of options makes it advisable, particularly in complex options, to perform the additional monitoring of other parameters which affect the value of the option, which are also described below:

- Delta Risk

  The Delta parameter measures the variation in the value of the option which occurs when the price of the underlying asset varies by one point. The Delta risk thus refers to the exposure to unexpected changes in the value of the options portfolio as a result of movements in the prices of the underlying instruments.

- Gamma Risk

  The Gamma of an option measures the sensitivity of its Delta to a variation of one point in the price of the underlying asset. It represents the risk that the Delta position of an options portfolio might vary as a result of a change in the prices of the underlying instruments.

- Vega Risk

  Vega is a measurement of the sensitivity of the value of the option as a result of a change of one percentage point in the volatility of the price of the underlying asset.

- Theta Risk

  The Theta risk is related to a reduction in the value of positions in options as a consequence of the passage of time.

The Delta and Vega risks are measured by means of the parametric VaR, while in order to measure the options risk the Historical Simulation VaR is used, as this methodology performs complete re-evaluations thereof.

For operations in certain types of exotic and complex options, for which management and measurement of the risk proves highly complex, the general policy is to eliminate this risk from the portfolio by means of the arrangement of back-to-back operations in the marketplace.

Measurement of market risk

There follows a description of the methodology employed for the measurement of market risk.

For the banking book for sale and investment, the VaR is also calculated and tracked in the same way as for the trading portfolio, although for the moment no market risk limits have yet been set for these portfolios.

Value at Risk

As mentioned previously, the VaR is the indicator used to establish the monitoring of limits on the exposure to market risk. It provides one single market risk measurement, integrating the fundamental aspects of the risk:

- Interest rate risk.
- Credit spread risk.
- Exchange rate risk.
- Equities risk.
- Volatility risk (for options).
- Liquidity risk

Parametric VaR

The VaR measurement used for monitoring the aforementioned limits is a parametric VaR with the following characteristics:

- Time horizon: 1 day
- Confidence level: 99%
- Decay factor of 0.97
- Depth of series of 255 business days

Calculation is performed daily, with the base currency being the euro.

In addition to the total VaR for the Trading Room, the measurement is obtained for the various levels and operational units of the Financial Area.

The mean distribution of the Trading Portfolio VaR by desk for 2016 and 2015:

	2016	2015
Funding Desk and DPV	700	904
Trading Desk	-	938
Forex Desk	465	-
Debt Desk	686	-
Equity Desk	460	-
Derivatives and Volatility Desk	-	567
Derivatives Desk	157	-
Credit Desk	75	151
Banknotes	27	31

In addition, an analytical measurement derived from the VaR, known as the market risk Component VaR is calculated and reported daily, serving to establish the contribution to the total risk of each position and market risk factor (risk concentration), approximating the sensitivity of the VaR to variations in the portfolio positions.

The component VaR can be obtained at a greater level of breakdown and reported by:

- Product
- Risk Level

The reliability of VaR measurements is confirmed by means of a daily back test.

VaR by Historical Simulation

In addition to the parametric VaR, the historical simulation VaR is calculated and reported daily, in order to provide a point of comparison for the risk estimate provided by the former.

The Historical Simulation VaR employs historical data to calculate changes in the market risk factors, which are applied to the actual values so as to generate simulated distributions of profits and losses, without making any a priori supposition as to their form, but instead using the real figures.

The parameters employed, in terms of the level of confidence, time decay factor, data series and time horizon for the estimate, are the same as those applied to calculation of the parametric VaR.

Expected Shortfall

Another more advanced method supplementing market risk measurements is the Expected Shortfall. The aim in this case is to measure the expected loss in the event that the VaR levels were to be exceeded. It therefore quantifies the risk within the loss zone. This is an asymmetric measurement which, unlike the VaR, not only takes into consideration the frequency of losses but also their magnitude in the event that the VaR were exceeded.

Management Results

On the basis of the risk tools, a daily calculation is performed of the management results for the trading portfolios.

The criterion followed is mark-to-market for positions with directly observable market prices (funds, bills, futures, options on organised markets) and mark-to-model (theoretical valuation) with market inputs for operations without a quoted price (deposits, OTC derivatives, etc.).

Sensitivity Measurements

Although the limits are structured with regard to the VaR measurement, which summarises all types of risk and portfolio in a single indicator, there is a series of supplementary measurements for the monitoring of market risk exposure, which are quantified and reported daily. The sensitivity measurements performed are as follows:

- Total Delta

  Sensitivity of the Net Present Value (NPV) to parallel movements in the interest rate curve.

- Curve Risk

  Sensitivity of the NPV to changes in the structure of the interest rate curve terms resulting from changes in the slope or the form of the curve in any section.

- Spread risk

  Measurement of the specific risk incurred with debt instrument issuers.

  In addition, liquidity risk is quantified by taking into consideration the nature of the portfolio positions and the situation of the financial markets.

- Exchange rate sensitivity

  Sensitivity of the NPV of foreign currency positions in the portfolio to movements in exchange rates.

- Price sensitivity

  Sensitivity of the NPV of variable income positions in the portfolio to movements in the prices of the portfolio securities.

- Volatility sensitivity

  Sensitivity of the NPV of options positions in the portfolio to movements in the volatility of the underlying factors (Vega risk).

Stress Testing

The purpose of stress tests is to estimate the effects in terms of losses of an extreme movement in the market on the current portfolio. To this end, one or several "worst-case scenarios" are defined for the evolution of prices, volatility and rates, based on actual situations that have been observed in the past, or others that may be generated.

The inclusion of the results of the stress tests in reporting systems provides information on the level of losses which could be suffered in positions in extreme cases, and helps to identify the risk profile of the portfolios in such situations.

Limits on market risk

The measurement of market risk for the trading portfolio is performed by means of the VaR, both by the Parametric and Historical Simulation methodology (for the purposes of the consumption of limits, the former is currently used), incorporating criteria of diversification and correlation between risks (diversification benefit).

The general structure of limits is determined by the following guidelines:

- The Board of Directors establishes global limits and, at the proposal of the Assets and Liabilities Committee, approves implementation plans and management procedures.
- The Assets and Liabilities Committee establishes a general framework of limits for market risk management and the distribution of limits across the desks.
- The Board of Directors approves and reviews modifications to these limits at the proposal of the Assets and Liabilities Committee.
- The head of the Finance Division is responsible for consumption of the global limit, along with the delegated limits, with any possible excesses requiring authorisation from the Assets and Liabilities Committee.

The Risk Department is responsible for the monitoring of and compliance with the limits and reporting of consumption to the Assets and Liabilities Committee.

There are two limit structures to control market risk in trading activity:

- VaR limits measure the maximum one-day potential loss authorised in accordance with the size and composition of the portfolio risk exposure at the close of day.
- Stop-loss limits measure the maximum real loss authorised both for the Trading Room and for its various constituent desks, incorporating the result of intraday operations. There is one monthly and another annual limit, along with a weekly and 22 calendar day references.

The Stop-Loss limits are reviewed periodically, with this review coinciding with the corresponding process applied to the VaR limits.

3. Operational risk

The objective of Cecabank with regard to operational risks is management and control, so as to align the operational risk "profile" of the bank with the guidelines established by Senior Management.

The bank adopts the policy of comprehensive management of operational risk, applied in a uniform and systematic manner to all structural units of the organisation. The operational scope covers the management of the different types of operational risk affecting the bank as a whole, and at the business line and support line levels.

Operational risk is managed at the Associate Services and Audit Department by means of the Operational Risk Unit. Its key function is to plan, organise and coordinate the implementation of the operational risk management system, developing management procedures in the various phases (identification, evaluation, monitoring, control and information):

- Identification - the process of risk identification is systematic and continuous. It is performed by means of the CIRO working group. This is a permanent group and is responsible for detecting operational risks inherent in the processes, products and systems of the bank. Its objective is to obtain and update the operational risk inventory, control points and risk indicators.
- Assessment - every two years, the risks identified undergo systematic self-assessment to evaluate the residual operational risk existing in activities, systems or products, employing qualitative techniques for this purpose. Each departmental supervisor (author) evaluates the degree of coverage of the established control points so as to mitigate potential risks within their sphere of responsibility. In turn, this process is supervised or validated by a higher-level manager. As a result of this self-assessment, a quantitative risk profile is automatically generated for the bank.
- In the years in which the self-assessment process is not performed, the quantitative risk profile is obtained by means of information provided by secondary control units (Internal Control, IT Security and Regulatory Compliance), on the basis of the actions they perform in the performance of their functions.
- Monitoring - the Operational Risk Unit proposes improvement plans to mitigate those risks which are not covered, and in all cases where information is received on recurrent and/or significant operational losses.
- The risk monitoring phase includes confirmation that the proposed improvement plans are being fulfilled by the specified deadlines and with the expected results.
- Control and information - a regular information system has been defined for operational risk exposures focusing on Governing Bodies, Senior Management and the Business and Support Areas. This system guarantees knowledge throughout the organisation of latent operational risks and of operational events resulting in a loss. Information is also provided on the measures proposed for the appropriate mitigation of risks or, as appropriate, acknowledgement and acceptance.

Operational risk management also actively involves the various Support and Business areas of the bank, through the "author and supervisor" figures designated at each structural unit to oversee collaboration in the implementation of the procedures defined. The relationships with departments performing secondary control actions (Internal Control, IT Security and Regulatory Compliance) and tertiary control (Internal Audit) are also perfectly defined.

Operational Risk Management Policies

The Operational Risk Control Framework covers the overall operational risk management objectives and policies of the bank.

In 2013 this Control Framework was supplemented by means of more specific implementation measures and principles for Depository operations, covered by the Operational Risk Control Framework for Depository operations, given the significance acquired by custodianship, administration and supervision operations for securities and other financial assets comprising the equity of Collective Investment Undertakings and Pension Funds for which Cecabank acts as depositary bank.

Note 17 on the annual accounts of the Group sets out the provisions which exist in this regard.

There follows an overview of the objectives and policies connected with operational risk management.

Risk Identification Objectives and Policies

Objective 1.: Having in place a global operational risk profile for the bank.

- **Policy 1.1.**: All assets, products and applications of the bank are subjected to a periodic analytical process in order to identify inherent operational risks. Senior management has designed the operational risk profile it wants for the bank. The operational

risk profile is understood as the position of Cecabank with regard to the seven operational risks defined by Basel. To this end, the Operational Risk Unit has developed the procedures required for the identification of risks, and reporting of the results obtained.

- **Policy 1.2.:** The execution of risk identification processes is systematic and ongoing. These processes are based on a detailed analysis of each of the activities undertaken at the bank. Management of the above processes must involve constant feedback with the supervisors of the various activities, to ensure the progressive identification of any significant risks which emerge as a result of changes in activities, systems or products.

- **Policy 1.3:** The risk identification processes includes risk indicators which are predictive in nature, in order to allow the risk assessments performed by the bank to be better focused on the future, and more directly reflect the quality of operational environments and effective control.

Objective 2.: Ascertaining the impact on the income statement of operational losses occurring at the bank.

- **Policy 2.1.:** A rigorous and systematic record is kept of all events which have generated operational losses at the bank. This record is maintained independently of accounting information records and integrated with all other operational risk management procedures. The origin of these impacts is consistent with the scope of application of the identification process set out in the previous point. The Operational Risk Unit is required to enable any procedures it may deem necessary in order to collate these events from their origin, and in the most efficient manner possible.

- **Policy 2.2.:** Identification processes begin with a rigorous analysis of all activities and processes undertaken within the bank in order to ascertain or establish criteria for their proper identification, such as:
  - Types of event which could generate operational losses
  - Interrelationship with the Business Lines or Business Support Areas.

- **Policy 2.3.:** Documentation of identification processes, guaranteeing conservation. The risk identification processes need to be duly documented in order to allow them to be reviewed both by internal managers and by auditors (internal and/or external) and supervisors. All arguments set out in order to consider certain activities, products or systems as not relevant for inclusion in the identification processes are also documented. The Operational Risk Unit has access to all documentation existing at the bank with regard to those operational events generating losses for the bank, irrespective of whether or not they are, in turn, insured by a third party.

Objective 3.: Having effective procedures in place for the identification of Operational Risk.

- **Policy 3.1.:** The Operational Risk Unit has access to IT resources and procedures providing feedback and/or maintenance, in order to maximise the efficiency of risk identification processes and the recording of events that have generated operational losses.

- **Policy 3.2.:** Participation in the risk identification process on an active basis by all personnel and, above all, by area supervisors. Involvement begins at the level of Area Management, which is directly responsible for involvement in the various management processes and the appointment of supervisors and authors for the assessment process. Each Area Management team has access to the required means and resources in order to implement risk identification policies within the processes undertaken in their spheres of responsibility. This involvement must take the form of the following actions:
  - Identifying and reporting all real or potential risk situations which might arise within the processes.
  - Identifying events that give rise to operational losses and the causes behind them.

Assessment Policies and Objectives

Objective 1.: Having in place a global operational risk profile for the bank.

- **Policy 1.1.:** Developing an internal qualitative assessment model which is consistent and the results of which can be accepted/validated by external supervisors (the Bank of Spain, the European Central Bank and External Audit) and internal supervisors (Internal Audit). The assessment model must meet the following requirements:
  - The assessment system is perfectly integrated within the operational risk management processes of the bank.
  - Any results it generates forms an integral part of the operational risk profile control and monitoring process of the bank.
  - There is a periodic reporting system providing information on operational risk exposures addressing Governing Bodies, senior management and the Business and Support Areas.
  - The system is well documented.

- **Policy 1.2.:** Subjecting the risks identified to systematic assessments in order to evaluate the existing residual operational risk in activities, systems or products, employing quantitative techniques for this purpose. A residual risk is understood to be the

part of the risk not covered by means of the internal control structure of the bank or insurance arranged with third parties. In other words, that part of the risk which with a certain degree of probability could have a negative impact. These assessments are performed by employing quantitative procedures to estimate the risks based on experience and an analysis of activities, products or systems. The profile obtained is compared against the desired profile, in order to initiate the appropriate corrective actions.

- **Policy 1.3.:** Quantitative assessment will ascertain that the basic internal control factors of the bank which have been identified reflect the quality of internal control and contribute to immediate recognition both of improvements and deteriorations observed in the operational risk profile. The assessment process identifies potential increases in risk attributable to the greater complexity of activities or a greater volume of business.
- **Policy 1.4.:** Subjecting the assessments to confirmation processes in accordance with the criteria established by Senior Management. The assessment process includes confirmation actions or corroboration processes.

Objective 2.: Integrate the assessment system within the bank's management processes.

- **Policy 2.1.:** Making the results obtained in the assessment binding on the Business Area Supervisors. The intended purpose is to promote from within the Organisation an operational risk culture, and to facilitate processes of adopting improvements so as to mitigate or reduce the existing residual risk. As a consequence of this policy, the risk assessment procedures must take into consideration express acceptance of the assessment granted by all parties involved in the assessment process.

Monitoring Policies and Objectives

Objective 1.: Having an updated global operational risk profile in place for the bank.

- **Policy 1.1.:** Developing cyclical assessment processes based on interactive computerised tools, accessible from the workstations. In the monitoring phase, a continuous review will be performed of all variables defined for the identification and assessment of risks, with the following aims:
  - Ensuring and supporting consistency in the process of assessment/measurement in the various areas.
  - Assessing the quality and appropriateness of the mitigation techniques applied.
  - Guaranteeing in the monitoring process that the premises established in the initial identification/assessment model are kept constant, particularly in aspects regarding the scope of application of the model, documentation of processes, responsibility for results and results reporting.
- **Policy 1.2.:** Using the results offered by the evolution of the risk indicators in monitoring processes as evaluation model feedback. Risk indicators must be taken as indicating changes in the evolution of the risk. When parameters are set for the information offered by the indicators, alerts are generated serving to create a risk profile used to supplement the risk profile obtained by means of the self-assessment surveys.
- **Policy 1.3.:** Incorporating the results of the Action Plans arising out of the control weaknesses observed in previous assessment processes. One significant milestone in evaluation model monitoring processes is the confirmation of the resolution of the control incidents observed. As a result, the Operational Risk Unit must ascertain that the improvements performed have been incorporated in the evaluation process.
- **Policy 1.4.:** Incorporating the conclusions obtained from the analyses performed in the operational loss records gathered. The Operational Risk Unit must periodically analyse events that have given rise to losses and, in light of these results, re-evaluate the processes affected both positively (reduction in losses) and negatively (increase in losses), and propose any improvements deemed necessary

Control/Mitigation Policies and Objectives

Objective 1.: Aligning the risk profile obtained in the assessment process with the profile desired by senior management.

- **Policy 1.1.:** Risk profiles are not accepted if they exceed the expectations or parameters established for the various activities, systems or products. The Operational Risk Committee design appropriate strategies in order to mitigate those risk levels deemed unacceptable or undesirable at the proposal of the Operational Risk Unit. The Control/Mitigation Strategies must be agreed with the Supervisors of the Areas affected if these processes entail:
  - Increased allocations of human or technical resources.
  - Significant restructuring of the processes.
- **Policy 1.2.:** The development of new activities, products or systems requires the identification and assessment of the inherent risks associated with them, and an estimate of the residual risk which will probably result. The Operational Risk Unit presents before the Compliance and Operational Risk Committee any cases in which it is deemed that an excessive inherent risk is incurred, in order for this Committee to issue specific preventive measures taken or to advise against the launch of the new activity or product.

Objective 2.: Minimising the effects of operational risk on the bank.

- **Policy 2.1.:** Implementing operational risk prevention strategies for the various Areas/products/ applications of the bank. In order to put this policy into practice, the Operational Risk Unit is required to develop preventive strategies approved by the Compliance and Operational Risk Committee so as to avoid or mitigate the impact of the operational risk on the bank. These strategies may be of the following kinds:
  - Improvement actions, which aim to reduce the potential impact on the bank of the risks assumed. These actions may in turn be subdivided as:
    - Development of new controls.
    - Redesign of processes.
    - Development of contingency plans.
  - Actions to transfer the risks to other banks, for example by means of:
    - Insurance of any risks which the bank may face over a period of time.
    - Outsourcing of activities to specialist companies outside the bank.
  - Financing of the risks, for example by means of the use of:
    - Provisions to cover the impacts of the risks.
    - Financial hedging at the point of impact.
  - Acceptance of the current situation, having deemed that the risk profile is aligned with the situation desired by senior management.

Information Policies and Objectives

Objective 1: Reporting to the Organisation, Committees and Governing Bodies the results obtained in the various risk management phases.

- **Policy 1.1.:** Developing a regular reporting circuit to guarantee that the bank is aware of the qualitative risk profile (from the self-assessment and assessments) and the quantitative profile (operational losses) and the improvement actions recommended to mitigate the residual risks detected.

Policies for the assignment of significant revenue and activities to the Business Lines

Objective 1: Developing and documenting specific criteria policies for the assignment of activities across the following 8 business lines:

- Business funding
- Trading and sales
- Retail brokerage
- Commercial banking
- Retail banking
- Payment and settlement
- Agency services
- Asset management

- **Policy 1.1.:** All revenue-generating business activities are assigned to the aforementioned lines, with each of the activities corresponding to a single line and, in addition, with no activity being left unassigned.
- **Policy 1.2.:** The criteria for assignment of activities to the business lines are as follows:
  - The operations, and hence revenue and expenses directly related to them, can be identified from their source, modifying whenever necessary the information systems in order to ensure this identification.
  - The operations comply with the characteristics indicated for each of the business lines.
  - If a particular activity contains operations that do not match the characteristics of any of the eight business lines described, the net revenue is imputed to the business line with the highest capital requirement.
  - All business lines include the costs of financing their activities, applying the analytical accounting Internal Rate of Transfer for this purpose.

4. Regulatory compliance risk

The Regulatory Compliance Department has devised a comprehensive compliance risk management system comprising three levels:

- **Risk maps,** identifying obligations for which compliance is controlled with an incorporated methodology to assess risks on the basis of objective criteria (possible penalty applied by the supervisory authority, and probability of reputation impact as a result of publication of the penalty).
- **Control map,** setting out the controls to cover the risks identified on the risk map.
- **Design of a reporting system** by means of which the results obtained from the controls are reported to the Compliance and Operational Risk Committee, in order for appropriate corrective measures to be adopted. The annual reports on compliance activities are also presented to the Audit Committee.

5. Risk in equity instruments not included in the trading portfolio

The group maintains positions in equity instruments not included in its trading portfolio.

These positions include stakes in groups not included within the Consolidated Group, associate and multi-group companies, which are maintained in general for strategic purposes, with an active participation in the management thereof, such entities contributing through their activities to the businesses and activities of the Group.

The Group also maintains equity positions not included in the trading portfolio, in which it does not play an active management role, and which are maintained for the contribution they make or are expected to make to the bank's results. Most of these positions correspond to shares and similar stock listed on organised secondary markets.

Analysis of the risk to which the bank is exposed as a result of the positions mentioned in the above paragraph is performed by using sensitivity analysis, by means of the measurement of variations in general market prices and the specific prices of the positions held.

Senior Management establishes the maximum risk levels to be assumed with regard to these positions. The control units monitor compliance with these levels, in addition to compliance with all other requirements and policies established in the management of such elements. The management objectives for these instruments are predominantly the pursuit of medium and long-term returns, avoiding levels of exposure and risk concentration in all cases, which could lead to excessive risk levels being assumed. The management of these instruments also employs derivative financial instruments, the purpose of which is to hedge the market risk to which the bank is exposed with regard there to.

Section 6 of this document includes information on these instruments and the capital requirements derived from them.

6. Interest rate risk in the Banking Book

Objectives, policies and processes for the management of balance sheet interest rate risk

The objectives set for the management of balance sheet risks are as follows:

- Establishing appropriate mechanisms in order to prevent unexpected losses through the impact of interest rate movements, through protection of the Financial Margin and Economic Value.
- Adopting investment and hedging strategies which achieve a short-term (Financial Margin) and long-term (Economic Value) balance in the financial impact derived from movements in interest rates.
- Executing hedging and investment strategies which strengthen the generation of profit under the risk levels approved.

In order to achieve the objectives described above, a structure of limits has been devised, guaranteeing that levels of exposure to risk lie within the tolerance level established by senior management.

The Board of Directors defines the general operational framework, and approves risk limits in accordance with its risk tolerance level. The management of the banking book interest rate risk is performed for both the short term and the medium and long terms, and takes the form of limits which are approved by the Board itself, and for which monthly monitoring is performed.

Senior Management is actively involved in the risk management through the Assets and Liabilities Committee. This committee is responsible for performing the actions required in order to redress any possible balance sheet risk imbalances.

Ensuring that exposure to interest rate movements is kept within the levels approved by the Board, along with the measurement, analysis and control of the banking book structural risk incurred by the Financial Division operations, is the responsibility of the Market, Balance and Liquidity Risk Division.

The banking book interest rate risk may be defined as the exposure of the financial and economic situation and thus movements in interest rates as a result of the differing timeframes of maturities and repricing of the overall balance sheet entries. This risk comprises a substantial part of the banking business, and could have a major impact on the Financial Margin and Economic Value of the Equity. As a result, interest rate management maintaining this at prudent levels is essential for the security and strength of the Group.

Measurement of the balance sheet interest rate risk

Repricing gap analysis

The purpose of gap analysis is to measure any surplus or shortfall in the volume of sensitive assets with respect to sensitive liabilities, and the volume not matched (and so not hedged), and subject to possible variations in interest rates. This thus identifies the risk exposure, through a study of the concentration of volumes of repricing risk over significant timeframes.

It illustrates the exposure to interest rate risk on the basis of the structure of maturities and/or repricing of positions. This analysis enables interest risk positions to be ascertained over different terms, and also aims to ascertain where potential impacts may affect the Financial Margin and Economic Value.

The interest rate gap is built up by distributing into time bands the positions and balances of the sensitive entries on and off the balance sheet, of the part corresponding to the Banking Book. In the case of entries with no maturity or repricing date, they are distributed in accordance with a historical performance hypothesis.

Simulation of the financial margin

In order to incorporate a dynamic balance sheet analysis to address various rate scenarios, Financial Margin simulations are performed over a timeframe of one year. This enables the analysis of the impact of changes through a movement in interest rates in accordance with the repricing periods of the various balance sheet entries.

The scenarios analysed are not only the implicit market forward rates, but also include other anticipated movements in the curve and stress scenarios.

Sensitivity of the Economic Value

In order to analyse the sensitivity of economic value, an analysis is performed of the impact of the usage of a number of stressed rate curves on the net present value (NPV), calculated on the basis of the zero- coupon curve data.

In order to supplement the sensitivity measurements, a methodology similar to the market VaR is applied, which enables the calculation of the Economic Value at Risk over a period of one month, and with a confidence level of 99%, taking into consideration all risk factors affecting the balance sheet.

Interest rate risk limits

The Board of Directors, as part of its monitoring function, establishes limits for interest rate risk in terms of sensitivity to variations in market interest rates. These variations are performed both for the brokerage margin and the economic value.

7. Liquidity Risk

The liquidity risk is defined as:

- The uncertainty of succeeding in financing the commitments assumed at a reasonable price, at times when recourse to external financing would be problematic for a given period.
- The maintenance or generation of the liquidity levels required to finance the future growth of the business.

In other words, this risk reflects the probability of incurring losses or being required to abandon new businesses or growth of current businesses through an inability to meet maturity commitments on a normal basis, or inability to finance additional needs and market costs. In order to mitigate this risk, the liquidity situation is periodically tracked, along with possible actions to be taken, with measures established in order to be able to re-establish the overall financial balance of the bank, in the event of a potential liquidity shortfall.

Objectives, policies and management processes for liquidity risk

The objective with regard to liquidity risk is to have instruments and processes in place at all times to enable payment commitments to be met in a timely manner, through access to instruments serving to maintain sufficient levels of liquidity in order to meet payments without significantly compromising profit, and the maintenance of mechanisms which, in the event of various eventualities, would serve to fulfil payment commitments.

In general and traditional terms, various forms of acquiring liquidity are available, including the capture of customer deposits, the availability of various funding facilities through official bodies and the capture of liquidity through the interbank market.

Liquidity Risk Measurement

There follows an overview of the measurements employed by the Market, Balance Sheet and Liquidity Risk Division to measure Liquidity Risk.

- Liquidity gap

  The liquidity gap measures the maturity and settlement profile by risk line (assets and liabilities classified in accordance with their residual maturity term plus the interest flows derived from these volumes), and reveals the balance mismatch structure in terms of cash flow incomings and outgoings.

  It reflects the level of liquidity maintained under normal market conditions and provides information on cash incomings and outgoings, both contractual and non-contractual, in accordance with performance hypotheses for a given period.

  This is reported on a monthly basis.

- Liquidity Inventory

  A list is drawn up in order to monitor available liquid assets so as to identify potential sources available in the event of a liquidity contingency.

- Liquidity ratios

  The purpose of the liquidity ratios is to value and measure the liquidity on the balance sheet, with the following being monitored daily:

  - **Short-term liquidity ratios.** These ratios estimate the potential capacity to generate liquidity within a period of 7, 15 and 30 days in order to meet a liquidity eventuality, and evaluate the adequacy of the proportion of sight deposits captured and maintained in liquid assets.
  - **Structural liquidity ratio.** The purpose of this ratio is to identify the funding mismatch, indicating the structure of liquidity generation and financing/investment by term.
  - **Survival ratio.** This ratio estimates the term over which liquidity commitments can be met for a period of 30 days in the event of a lack of access to the interbank market or alternative sources of funding. Various scenarios are combined for non-availability of access to the sources of funding covered by this calculation, along with the immediate withdrawal of customer positions classified as stable.

Among them are ratios as defined by solvency ratios, as well as others developed internally.

Stress ratios are also applied, combining different restrictions such as the inaccessibility of capital markets, a mass withdrawal of deposits, the activation of contingent liquidity commitments and other external market conditions.

In addition, daily monitoring is also performed of a series of leading indicators of alert and intensity with regard to a liquidity crisis, and a detailed and permanently updated inventory maintained of the liquidation capacity of balance sheet assets.

Liquidity risk limits

The Board of Directors, as part of its monitoring function, establishes a framework of limits for liquidity risk, based on the monitoring of the short-term liquidity situation.

In specific terms, the limits are based on the following indicators:

- **LCR (Liquidity Coverage Ratio):**

  This is the statutory ratio used to measure whether adequate funds are available in terms of unencumbered high-quality liquid assets (HQLA), which can easily and immediately by converted into cash on private markets, in order to cover liquidity requirements in the event of liquidity problems of 30 calendar days.

- **NSFR (Net Stable Funding Ratio)**

  This ratio is defined as the amount of available stable funding relative to the amount of required stable funding, and aims to ensure the balance sheet is kept balanced, and stable funding requirements are anchored by stable liabilities.

  While its incorporation into solvency regulations is still pending, Cecabank is already monitoring its NSFR to guarantee

- **Short-term liquidity ratio:**

  This ratio estimates the potential capacity to generate liquidity in order to meet committed payments over a given time period in the event of lack of access to the interbank market.

  The generation capacity includes:

  - Collections derived from the current portfolio.
  - Capacity to continue discounting eligible paper.
  - Potential liquidity, which is the set of assets which can be liquidated and have not been temporarily assigned.

  In addition, in order to supplement the information allowing for optimal liquidity management, additional stress scenarios are included, by applying events such as withdrawals of stable finance, activation of contingent commitments, rating downgrades, loss in value of discountable portfolio, etc.

- **Liquidity gap at 1 month with regard to stable funding:**

  This ratio measures the need for net refinancing at 1 month with regard to the amount of financing considered non-volatile (in other words, how many times greater the need for refinancing at one month is than the stable funding available). This allows the degree of concentration of the net holding position to be limited in the very short term with regard to the size of stable financing, the aim being that the financing structure should be as balanced as possible in maturity terms.

  Any excess beyond these limits must always be authorised by the Assets and Liabilities Committee whenever deemed necessary and must be reported to the Board of Directors together with the action plan in order to redress the situation.

8. Other Risks

8.1 Reputational risk

The reputational risk control function has a Reputational Risk Procedures Manual in place, which was approved by the Compliance Committee at its meeting held on 3rd December 2010. This manual sets out the design of the structure for the assessment of this risk in depth, which entails the identification of the main areas affected by the risk, the factors impacting on it and the preventive measures or controls mitigating its impact. In addition, the Compliance and Operational Risk Committee approved in 2016 a new system to assess reputational risk of new counterparties/customers, which meant all individuals (falling within the predefined subjective field) requesting the provision of services would be assessed. According to this new procedure, if the final assessment of the qualitative report (overall risk assessment and assessment of product/service sensitivity) is Medium-High or High, as well as when there is not enough public information available to perform an evaluation, the result would be put forward to the Compliance and Operational Risk Committee to approve the counterparty as a prerequisite for admission. Reports produced over the year have also served for reference in the process of the bank's measuring of general reputational risk.

In the assessment performed in 2016, the conclusion reached was that the bank has a low reputational risk profile, which it manages effectively.

8.2 Business risk

The Risk Tolerance Framework approved by the Board of Directors establishes the pursuit of long-term revenue stability as a priority for the management of this risk. This is the principle which must prevail in relationships with customers, including contractual relationships.

Cecabank addresses its business risk from the following approaches:

- This is a quantitative risk, the evolution of which must be considered on the basis of strategic planning and monitoring. It is a risk which could take some time to present itself, and for which an exclusively quantitative focus is not valid.
- Mitigation of this risk is provided by:
  - A continuous framework monitoring the markets in which the bank operates from various perspectives (economic, regulatory, competition, businesses at risk, etc.).
  - Monitoring at various levels of the evolution of businesses and comparison of these results against the strategic planning suppositions.
  - Diversification by business type and by customer.
  - Maintenance of a stable and recurrent profit structure. In addition to ensuring that, at the level of individual businesses and for the bank as a whole, the return of businesses is, over time, predictable, sufficient and in line with the strategic planning budgets.
  - Specialisation in businesses where the establishment of stable, long-term relationships with customers is a key element.
  - Management of the relationship with customers in a transparent and transversal manner, with dialogue at various levels of the bank, in order to reduce "key person" risk.
- The focus is not based solely on those elements which could result in a particular strategy proving unsuccessful, but rather an analysis of the elements that may affect long-term performance and positioning.
- It is necessary to identify those factors which introduce volatility into the income statement and/or other scenarios which could have a significant impact on it. Whenever the impact is not considered and evaluated from the perspective of other risk management.

The monitoring structure established is based on three levels:

- The Units with business responsibilities are given the task of monitoring the objectives set out in the Strategic Plan and reporting on any aspect or contingency which could jeopardise the achievement of these objectives.
- Senior management oversees the evolution of the business lines, the levels of concentration and distribution of revenue, the assessment of risks which could prevent achievement of strategic objectives, and the volatility of the income statement.

  It is also responsible for adopting any mitigation measures which might be required, and for identifying those elements and scenarios which could jeopardise the achievement of the specific objectives of each business line.
- The Board, with the support of the Risk Committee, receives information on compliance with of the Strategic Plan, as a cornerstone of establishing the focus of the bank's business and the objectives for each of the business lines.

The monitoring performed is focused on early identification of any potential impairment which could result from changes in the competitive environment, and which jeopardises profit and requires a review of the bank's strategy. Perception of the brand and the quality of services provided is also assessed, to the extent that these could affect customer decisions.

ANNEX II: DEFINITIONS OF DEFAULT AND "IMPAIRED POSITIONS" AND CRITERIA APPLIED TO ESTABLISH THE AMOUNT OF IMPAIRMENT LOSSES

The classification of operations based on credit risk due to insolvency are as follows:

A **Standard risk:** considers all operations that do not comply with the requirements to be classified in other categories.

B **Standard risk under special monitoring:** this category is composed of all operations that, without complying with the criteria to be classified as doubtful or bad-debt risk, present weaknesses that would lead to assuming higher losses than other similar operations classified as standard risk.

C **Doubtful risk (deteriorated) due to non-payment by the holder:** It comprises the amount of the debt instruments, whatever their holder and guarantee, that have any overdue amount of principal, interest or contractually agreed expenses that are over 90 days old, unless they should be classified as bad-debt. Also included in this category are guarantees granted when a guaranteed operation has entered into non-payment due to the party guaranteed. This category also includes all of a holder's operations when the sums that are more than 90 days overdue are higher than 20% of the amount outstanding. Solely for the purposes of determining the percentage outlined, the numerator is considered the gross carrying amount of the operations considered doubtful due to default with the sums overdue. The denominator is considered the gross carrying amount for the total of all debt instruments granted to the holder. If this percentage exceeds 20% both the debt instruments and the off-balance exposures involving credit risk will be transferred to doubtful due to default.

D **Doubtful risk other than due to non-performing loans of the holder in question:**

a. This comprises debt instruments, whether subject to late payment or not, although the circumstances for them to be considered defaults or at-risk exposure due to late payment of the holder have not occurred, in which there are reasonable doubts about whether they will be fully repaid within the contractually agreed period; as well as off-balance exposures not classified as doubtful due to holder default where it is probable that they will be paid by the bank and doubtful that this will be recovered.

b. This category would include, among others, operations in which the holder finds themselves in situations leading to a deterioration in solvency.

c. In addition, if any of the following factors used for automatic classification are observed they will be necessarily included in this category:

i. Operations with reclaimed balances or those which it has been decided will be repaid through legal means by the bank, although they are guaranteed, as well as operations on which the debtor has raised a dispute, the resolution of which depends on its payment.

ii. Finance leasing operations where the bank has decided to cancel the contract to take possession of the goods.

iii. Operations of holders who have declared, or have signalled that they wish to declare, at a creditors' meeting without any settlement request.

iv. The guarantees granted to guarantors declared bankrupt at a creditors' meeting who have declared or are going to declare themselves in the winding-up stages, or suffer a noticeable deterioration in their solvency which is unlikely to recover, although the beneficiary of the guarantee has not reclaimed their payment.

v. Refinancing or restructuring which is refinanced or restructured during the test period, or where overdue amounts are more than 30 days late.

E **Doubtful risk:** This category includes debt instruments, in arrears or not, which, after individual analysis it is considered that there is a remote chance of recovery due to a noticeable deterioration or unrecoverable deterioration of the solvency of the operation or holder. Classification in this category will entail the full recovery of the amount in gross book value of the operation and the total cancellation of the asset.

Loss coverage by credit risk due to insolvencies:

A Specific coverage for doubtful risk (deteriorated).

a. Doubtful risk due to non-performing loans of the holder:

Companies will evaluate assets classified as doubtful due to holder default to estimate loss coverage due to credit risk, taking into account the age of the overdue amounts, the collateral and personal warranties received, and the financial situation of the holder and guarantors. Individual or collective coverage for operations that are doubtful due to default should not be less than the generic coverage that would apply if they were classified as standard risk under special monitoring.

b. Doubtful risk other than due to non-performing loans of the holder:

Coverage for operations that are doubtful for reasons other than default should be assessed on an individual basis. However, when the classification has been done exclusively by considering automatic factors, coverage for operations classified in this category should be assessed as a group. As an alternative solution to these group coverage estimates, coverage percentages for risk that is doubtful for reasons of default, from the same risk segment, but for younger debts, can be used.

As at 31 December 2016 estimation percentages and criteria established in Annex IX of Bank of Spain Circular 4/2004 of 22 December, modified by Bank of Spain Circular 4/2016 are applied.

B General coverage for standard risk (includes special monitoring):

The general coverage estimate will take into account the amount to recover from effective collaterals, after applying approximate discounts to hedge doubtful risk. The impact of effective collaterals may also be considered. Institutions will separately calculate collective coverage for standard risks under special monitoring, which will have higher coverage due to their higher risk.

This provision associated with this generic cover, which for the purposes of calculation of capital requirements has been considered as Tier 2 capital, is quantified by applying the percentages and estimation criteria established in Annex IX of Bank of Spain Circular 4/2004, of 22nd December 2004, modified by Bank of Spain Circular 4/2016.

Credit risk because of country risk

Classification of operations according to credit risk due to country risk: Debt instruments not valued at fair value through profit or loss, as well as off-balance exposures, irrespective of the holder, will be analysed to determine credit risk due to country risk. To this effect, country risk comprises risk where holders are resident in a particular country due to circumstances other than usual business risk. Country risk comprises sovereign risk, transfer risk and other risks derived from international financial activity.

Operations will be grouped according to the following:

A. Group 1. This group will include operations where the parties bound reside in:

i. Countries in the European Economic Area.

ii. Switzerland, the United States, Canada, Japan, Australia and New Zealand, aside from in the event of a significant deterioration of the country's country risk profile, in which case they will be classified according to that.

B. Group 2. This group will include operations where the parties bound reside in low risk countries.

C. Group 3. This group will include, at least, operations where the parties bound reside in countries showing significant macroeconomic deterioration, which it is believed could affect the country's payment capacity.

D. Group 4. This group will include, at least, operations where the parties bound reside in countries showing far-reaching macroeconomic deterioration, which it is believed could affect the country's payment capacity. This group will include operations charged to countries in group 3 which are experiencing a worsening of the indicators mentioned in the previous group.

E. Group 5. This group will include, at least, operations where the parties bound reside in countries showing prolonged issues with resolving their debt, with the possibility of repayment considered to be doubtful.

F. Group 6. This group will include operations for which it is considered there is a remote chance the sums will be recovered, due to circumstances attributable to the country. In all cases this group will include operations where the parties bound reside in countries that have renounced their debts, or who have not attended to depreciation and amortisation nor interest payments for a period of four years.

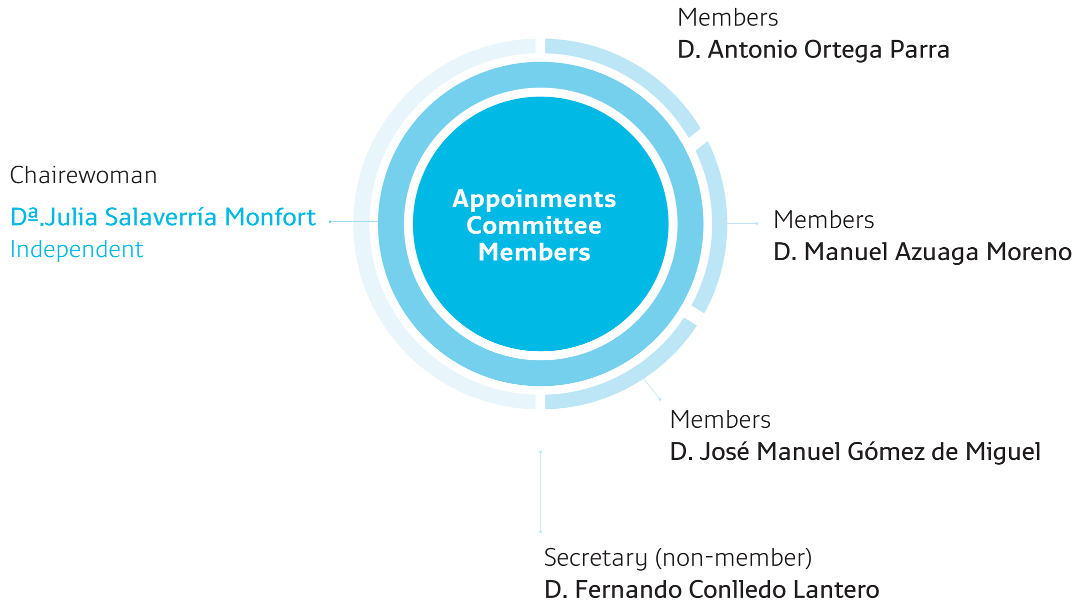
ANNEX III: COMPOSITION OF CECABANK'S COMMITTEES

There follows a list of the members of each of the Committees mentioned in section 2.1.1:

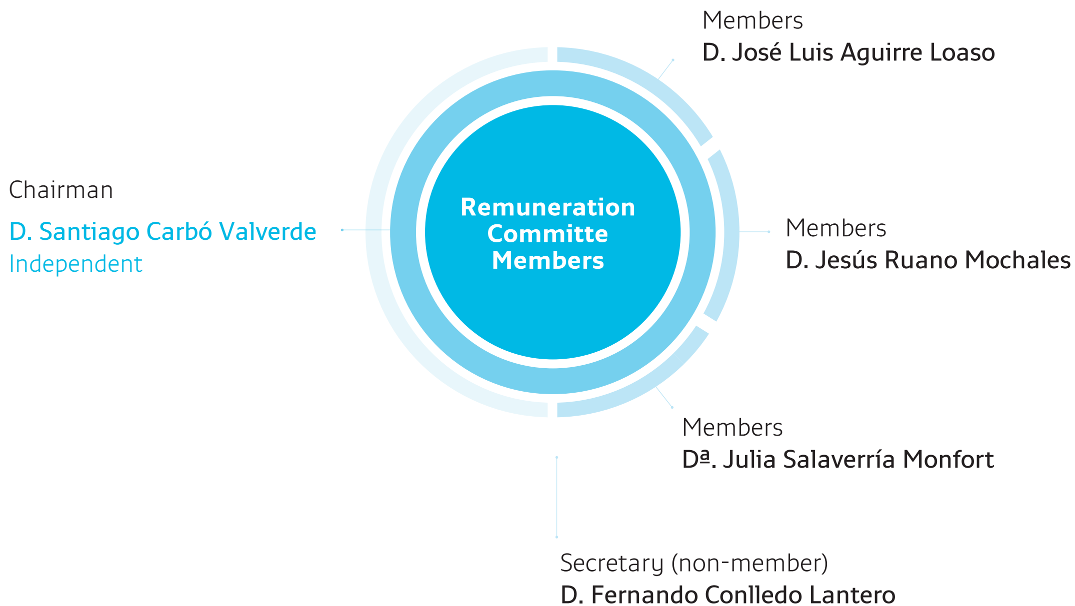
Audit Committee Members

Risk Committe Members

Appointments Committee Members



Remuneration Committee Members



ANNEX IV: TOTAL AMOUNT OF THE RISK EXPOSURE

Set forth below is the total amount of exposure to risk (general credit risk, securitisation implementation risk, and market risk); the geographical distribution of the corresponding exposures detailed by country and risk type; the own funds requirements and their weightings by country; and finally the countercyclical capital buffer to be applied for each country which, as previously mentioned, is 0% for all countries.

Geographical distribution of the corresponding credit exposures for calculating the countercyclical capital buffer (thousands of euros)	Standard Method			Own Funds Requirements					
	General credit exposure	Exposure of financial assets held for trading	Securitisation exposure	Of which: General credit exposure	Of which: Exposure of financial assets held for trading	Of which: Securitisation exposure	Total	Weightings of the own fund requirements	Countercyclical capital buffer percentage
Belgium	2,390	-	-	191	-	-	191	0.40%	0%
Germany	3,091	-	-	247	-	-	247	0.52%	0%
Spain (*)	434,296	93,251	234,648	22,730	6,850	12,709	42,290	88.15%	0%
France	10,747	-	-	857	-	-	857	1.79%	0%
United Kingdom	4,348	-	18,312	267	-	732	999	2.08%	0%
Ireland	22,008	-	-	880	-	-	880	1.83%	0%
Italy	2,001	-	1,536	160		123	283	0.59%	0%
Luxembourg	-	1,271	-	-	102	-	102	0.21%	0%
Netherlands	3,362	-	-	141	-	-	141	0.29%	0%
Portugal	-	-	24,822	-	-	1,986	1,986	4.14%	0%
Total	482,243	94,522	279,318	25,473	6,952	15,550	47,975	100%	0%

(*) It includes Guernsey exposure which, representing less than 2% of the total of the general credit exposure, has been assigned to the bank's place of establishment.

ANNEX V: INFORMATION ON OWN FUNDS (PHASE-IN AND FULLY LOADED)

Amount on date of reporting (thousands of euros)		Fully loaded	Regulation (EU) 575/2013 Reference to article
Capital instruments and the corresponding share premium accounts			
1. Instrumentos de capital y las correspondientes cuentas de primas de emisión	727,750	727,750	26 (1), 27, 28, 29, EBA list 26 (3)
of which: common shares	727,750	727,750	EBA list 26 (3)
2. Retained earnings	155,613	155,613	26 (1) (c)
3. Other cumulative comprehensive results (and other reserves)	53,574	53,574	26 (1)
Common Equity Tier 1 capital before regulatory reductions	**936,937**	**936,937**	
Common Equity Tier 1: Regulatory adjustments			
7. Additional value adjustments (negative amount)	-5,431	-5,431	34, 105
8. Intangible assets (net of tax debt) (negative amount)	-35,656	-59,426	36 (1) (b), 37, 472 (4)
15. Pension fund assets with defined benefits (negative amount)	-3,103	-5,171	36 (1) (e), 41, 472 (7)
26a. Regulatory adjustments relating to unrealised losses and profits under articles 467 and 468	-33,629		
of which: unrealized profit in exposure other than central administrations classified in the category «Available for sale» of the IAS standard 39 endorsed by the EU	-9,758		467
of which: unrealized profit in exposure other than central administrations classified in the category «Available for sale» of the IAS standard 39 endorsed by the EU	2,769		467
of which: unrealized profit in exposure to central administrations classified in the category «Available for sale» of the IAS standard 39 endorsed by the EU	-26,734		468
of which: unrealized loss in exposure to central administrations classified in the category «Available for sale» of the IAS standard 39 endorsed by the EU	94		468
27. Qualifying CET1 capital deductions1 that exceed the CET1 capital of the bank (negative amount)	-23,770		36 (1) (j)
28. Total of the regulatory reductions of Common Equity Tier 1 capital	**-101,588**	**-70,028**	
29. Common Equity Tier 1 capital	**835,349**	**866,909**	
Additional Tier 1 capital: Instruments			
36. Additional Tier 1 capital before regulatory adjustments	**0**	**0**	
Additional Tier 1 capital: Regulatory adjustments			
41. Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-23,770		
41a. Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	23,770		472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
43. Total regulatory adjustments to additional Tier 1 Capital	**0**	**0**	
44. Additional Tier 1 Capital	**0**	**0**	
45. Tier 1 capital (Tier 1 capital = Common Equity Tier 1 + Additional Tier 1 capital)	**835,349**	**866,909**	
Tier 2 capital: Instruments and provisions			
50. Credit risk adjustments	1,777	1,777	62 (c) and (d)
51. Tier 2 capital before regulatory adjustments	**1,777**	**1,777**	
Tier 2 capital: Regulatory adjustments			
57. Total Tier 2 capital regulatory adjustments	0	0	
58. Tier 2 capital	**1,777**	**1,777**	
59. Total capital (Total capital = Tier 1 capital + Tier 2 capital)	**837,126**	**868,686**	
Total risk-weighted assets	**2,644,860**	**2,644,860**	

Amount on date of reporting (thousands of euros)		Fully loaded	Regulation (EU) 575/2013 Reference to article
Ratios and capital buffers			
61. Common Equity Tier 1 (as a percentage of the total risk exposure amount)	31.58	32.77	92 (2) (a), 465
62. Tier 1 capital (as a percentage of the total risk exposure amount)	31.58	32.77	92 (2) (b), 465
63. Total capital (as a percentage of the total risk exposure amount)	31.65	32.84	92 (2) (c)
64. Buffer requirements specific to the institution [requirement of common equity tier 1 in accordance with article 92, section 1, letter a), as well as Capital Conservation Buffer and Countercyclical Capital Buffer requirements, plus the systemic risk buffer and the buffer for systemically important institutions, expressed in percentage of the risk exposure amount]	5.125%	7.00%	CRD 128, 129, and 130
65. of which: Capital Conservation Buffer requirement	0.625%	2.50%	
66. of which: Countercyclical Capital Buffer requirement	0%	0%	
67. of which: systemic risk buffer	N.A.	N.A.	
67a. of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	N.A.	N.A.	CRD 131
68. Common Equity Tier 1 capital available to meet capital buffer requirements (by percentage of the amount of exposure to risk)	23.58%	24.78%	CRD 128
Amounts below the thresholds for deduction (before risk-weighting)			
72. Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	26,886	26,886	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 477 (4), 66 (c), 69, 70
75. Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	57,791	57,791	36 (1) (c), 38, 48, 470, 472 (5)
Applicable caps on the inclusion of provisions in Tier 2			
76. Credit risk adjustments included in the Tier 2 capital with respect to exposures subject to the Standardised Approach (before the application of the cap)	1,777	1,777	62
77. Cap on inclusion of credit risk adjustments in T2 under the Standardised Approach	795,838	795,838	62
Capital instruments subject to phase-out provisions (only applicable between 1 January 2014 and 1 January 2022)	N.A.	N.A.	

The code that appears in the right margin of each concept is related to those covered in Annex IV of the Commission Implementing Regulation (EU) 1423/2013.

Regulatory references led by the initials CRD correspond to articles of the Directive 2013/36/EU of the European Parliament and of the Council.

Statutory references that refer to the EBA list correspond to the list published by the European Banking Authority in the framework defined in Article 26 (3) of the Regulation (EU) 575/2013

ANNEX VI: CONCILIATION OF THE OWN FUND ITEMS WITH THE AUDITED FINANCIAL STATEMENTS

Concept (thousands of euros)	Amount	Accounting matching
Tier 1 Capital	835,348	
Common Equity Tier 1 capital	835,348	
Capital instruments eligible as Common Equity Tier 1 capital	727,750	
Paid-up capital instruments	112,257	Consolidated Public Balance Sheet - Equity - A.E.1.3.a epigraph "Paid-up capital"
Share premium	615,493	Consolidated Public Balance Sheet - Equity - A.E.1.3.a epigraph "Share premium"
Retained earnings	155,613	
Cumulative gains from previous years	155,613	Consolidated Public Balance Sheet - Equity - A.E.1.3.a epigraph "Other reserves"
Eligible profit	0	
Other cumulative comprehensive results	53,574	Consolidated Public Balance Sheet - Equity - A.E.1.3.a epigraph "Actuarial gains and losses on defined benefit provision plans" + Consolidated Public Balance Sheet - Equity - A.E.1.3.a epigraph "Items that can be reclassified to profit or loss: Available-for-sale financial assets"
Common Equity Tier 1 capital adjustments due to prudential filters*	-5,431	
Other intangible assets (-)	-59,426	Consolidated Public Balance Sheet - Assets - A.E.1.1 epigraph "Intangible Assets"
Pension fund assets with defined benefits (-)	-5,171	Note 15.1 of the Cecabank Consolidated Report "Net assets in pension plans"
Surplus of elements deducted from additional Tier 1 capital with regard to the Additional Tier 1 capital (-)**	-23,770	
Other transitional adjustments to Common Equity Tier 1 capital (-)***	-7,791	

* Value adjustments due to reductions for prudent assessment requirements
** 40% deduction of other intangible assets
*** Unrealized profit DPV (percentage of unrealised capital gain/loss of the DPV portfolio registered in Consolidated Public Balance Sheet-Asset L.E.1.1 in the epigraph "Available-for-sale financial assets")

Unrealized profit (Classification of the securities portfolio: M8)	-33,630
+ 40% other intangible assets	23,770
+ 40% defined benefit pension fund assets	2,068
Total	-7,791

ANNEX VII: CONCILIATION OF THE MEASUREMENT OF THE TOTAL EXPOSURE CORRESPONDING TO THE LEVERAGE RATIO AND FINANCIAL STATEMENTS

Concept (thousands of euros)	Balance
Book assets	10,094,415
Reductions for derivative financial instruments	-1,543,306
Adjustment for securities financing transactions	-872,320
Other adjustments (*)	-217,465
Exposure corresponding to Book Assets	7,461,325
Reduction for off-balance-sheet items	95,648
Adjustments for Tier I deductions	-101,589
Exposure considered in Leverage ratio	7,455,384
Tier I	835,348
Leverage Ratio	11.20%

* Residual reduction due to other assets calculated by difference.