

cecabank

2017  
**Annual  
Report**



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and audit report for the 2015 fiscal year



## Letter from the CEO

José María Méndez Álvarez-Cedrón

2017 has been an important year for **Cecabank**: it has celebrated its **5th anniversary**.

In these first five years of life and by implementing a first strategic plan and preparing a new plan with a 2020 horizon, we have consolidated a position of leadership in the Spanish post-trading business.

Cecabank was born with the mission of acting as a strategic financial partner to financial institutions and other corporations. As the principal depository in the country, our purpose is to safeguard the savings of small investors in an environment of low interest rates and in which the demand of collective investment undertakings and pension funds are growing.

The current position we have reached in the market is thanks to work performed by a team committed to a relentless effort to improve our services. At Cecabank we pursue excellence in what we do. For this reason, the report tries to reflect our passion for “doing things well”. We pay attention to every detail, every process, anticipating any changes and always focusing on the customer’s needs.

This has been the first year of the 2017-2020 Strategic Plan. One of its objectives is to **expand the leading position as a depository** by complementing the services offered in the value chain. During 2017, Cecabank has consolidated its position in this market. This leadership has been supported by the prestigious European publication Global Banking & Finance Review, which has recognised Cecabank as the **best custodian bank in Spain**. The award recognises the excellence of customer service, leadership in Securities Services and the solvency of Cecabank, with a **CET 1 ratio of 27.43%** at December 2017, one of the highest in the European Union.

Furthermore, Cecabank held the **Securities Services Conference** at the Madrid Stock Exchange. In this fourth edition, the attendees were able to debate on the entry of Spain in Target 2 Securities and the culmination of the Securities Clearing and Settlement Systems’ Reform with the implementation of Phase II. A debate was also held on the challenges and opportunities of pension funds in Spain and on the impact of UCITS V and MiFID II on investment funds. Cecabank’s Securities Services Conference has consolidated itself as the **main Spanish post-trading forum**, as it is a unique event for exchanging experiences, cooperation and innovation since it brings together representatives of the national and European regulators, Stock Exchange Dealers, Managers of UCITs and Pension funds, Banks and of Venture Capital Managers.

In the **Treasury Management** area, the 2017-2020 Strategic Plan seeks to increase profitability of Securities Services streams by complementing the services offered in the value chain and consolidating the company’s leading position in the banknotes business in Spain. In this line, the area has achieved good results in 2017 as a result of the further client intermediation, reduction of the cost of liabilities and the evolution of tourism, which has had a positive impact on the banknote desk.



“  
*We have consolidated a position of leadership in the Spanish post-trading business.*”

Throughout the upcoming years and following the guidelines of the Strategic Plan, Cecabank intends to increase the current client base in the **Banking Services area** in a context of consolidation of the banking sector by **innovating in digital services and payment methods**. To this end, the institution has started several initiatives in 2017.

On the one hand, by taking advantage of the needed technological transformation involved in the adoption of MiFID II and with the aim of promoting a new model for distributing financial products that contributes added value to our clients, Cecabank held another event in which several experts participated to analyse how the short- and medium-term application of this new regulation will turn out. During this event Cecabank presented the Comprehensive Securities Solution, an innovative marketing strategy in this new regulatory environment and an opportunity to retain and increase the custodian business.

In the same line of innovation, Ck-Lab was presented at the beginning of 2017. It is the **financial digital transformation laboratory** created by Cecabank in which Public Administrations, banks and **fintech** companies collaborate in initiatives related to technological innovation and search for a favourable regulatory framework for the development of a digital financial society. Within the framework of CK-Lab, we have reached collaboration agreements with the Spanish **Fintech** and **Insurtech** Association (AEFI) and with Foro **Fintech** Both are leading associations in the Spanish sector and prominent actors in promoting dialogue in the digital ecosystem in Spain.

Among the most innovative initiatives carried out in the past financial year, we cannot forget that Cecabank and the professional services firm, Grant Thornton, created the first Blockchain Banking Consortium in Spain. The project intends to progressively develop the potential of blockchain technology in specific uses for the financial sector.

Lastly, and following guidelines of the Strategic Plan, over the upcoming years Cecabank will work towards the completion of the 10 incremental initiatives that have been put in motion this financial year in order to improve the services offered by our institution.

Some of these initiatives have an international scope, as the opening of our branch in Portugal; others focus on a more operational scope, such as the bonds platform, but they are all essential in order to continue growing and offering efficient, innovative and cutting-edge solutions to all our *stakeholders*.



## 01.- About Cecabank

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# 01

## About Cecabank

At Cecabank we help our clients, financial institutions and other companies achieve their goals with our experts and innovative financial solutions.

Our soundness and experience as an independent B2B bank enables us to create lasting relationships with our clients.

## 1.1 Figures and details

### OUR DETAILS DECEMBER 2017

TOTAL ASSETS

**9,960,460**

thousands of euros

TOTAL NET EQUITY

**1,057,679**

thousands of euros

OWN FUNDS

**1,012,621**

thousands of euros

PROFIT FOR THE  
YEAR

**73,218**

thousands of euros

CET1

**27.43%**



Balance sheet (thousands of euros)		2017
Total Assets		9,969,460
Held-for-trading financial assets		2,144,770
Financial assets designated at fair value through profit or loss		256,876
Available-for-sale financial assets		1,772,261
Held-for-trading financial liabilities		1,539,978
Financial liabilities at amortised cost		7,032,621
Total Net Equity		1,057,679
Own funds		1,012,621

Income statement (thousands of euros)		2017
Net interest income		18,399
Gross income		263,201
Profit from operations		99,772
Profit before tax		108,156
Profit for the year		73,218

Solvency and Liquidity		2017
CET 1 ratio		27.43%
Equity		725,969
Basic Equity (core capital)		724,332
2nd category Equity		1,637
Long-term Liquidity Ratio		261%

Cecabank Rating			2017
	Short-term	Long-term	Outlook
Moody's	P-2	Baa2	Stable
Fitch Ratings	F-3	BBB-	Stable
Standard & Poor's	A-2	BBB	Positive

\* Individual details



## 1.2 Our activity

We offer innovative financial solutions that we group into three lines of business:

### Securities Services



It groups all the services of the Securities Services chain, such as securities depository, custody and settlement services and UCITs and pension funds depository services. In addition, we provide a comprehensive management of collections and payments, enabling us to offer our clients a global solution.

- 1. FUND DEPOSITORY
- 2. SECURITIES CUSTODY AND SETTLEMENT

### Treasury Management



In the Trading Room public and private fixed-income, equity and derivative transactions are carried out in all the main national and international markets. We work on the investment of resources and our own portfolio and we execute orders on behalf of clients.

- 1. TRADING ROOM
- 2. EXUCTION OF EQUITY
- 3. CORPORATE FINANCES AND DCM
- 4. BANKNOTES

### Banking Services



Cecabank has a wide range of technology and process solutions specialising in payment methods and systems, as well as extensive knowledge on the banking regulation.

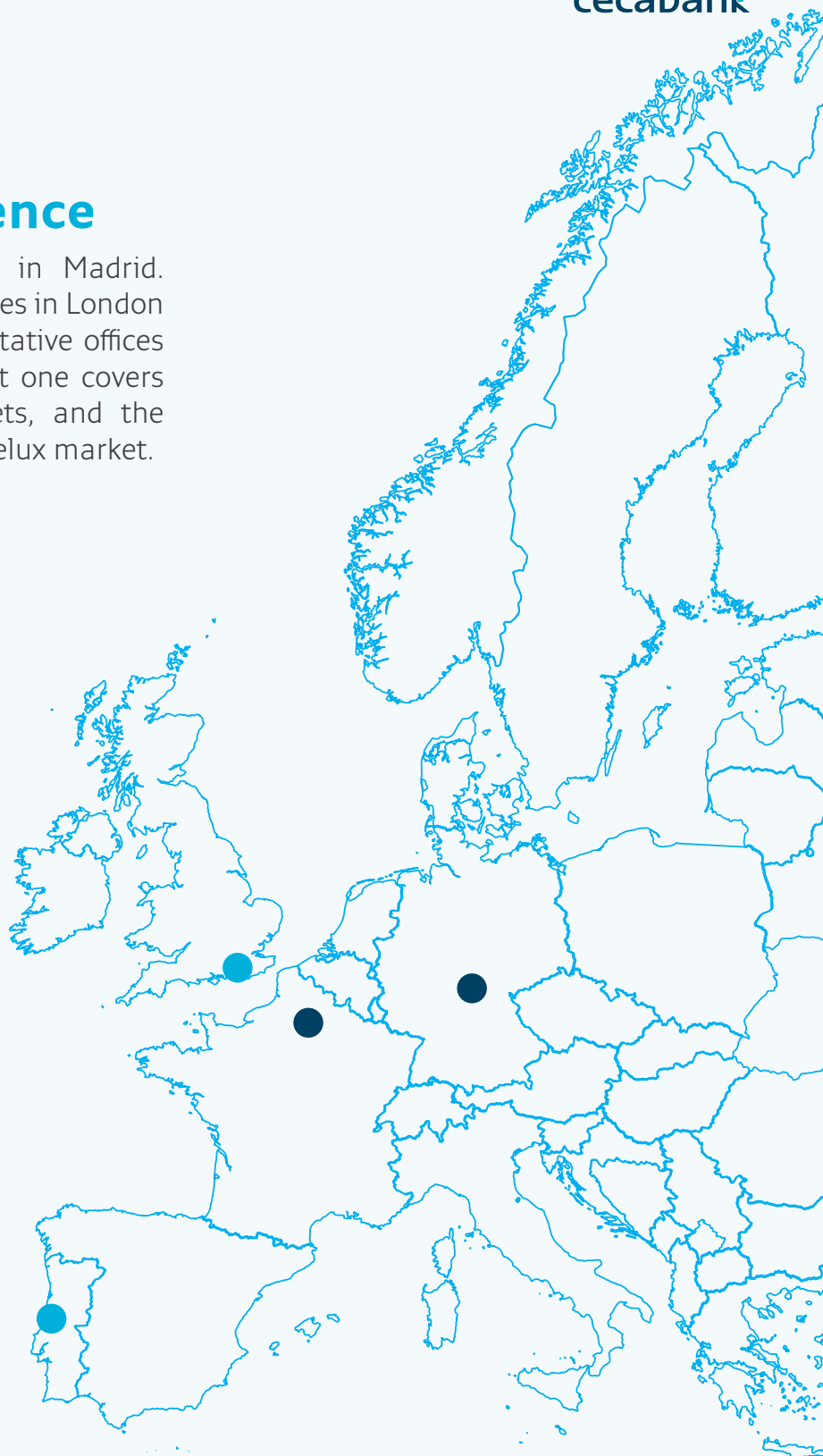
- 1. PAYMENT METHODS
- 2. BUSINESS INTELLIGENCE AND CHANNELS
- 3. DISCOUNTING, CLEARING AND PAYMENTS SYSTEMS
- 4. TREASURY MANAGEMENT AND RISK SUPPORT
- 5. FINANCIAL REPORTING
- 6. REGULATORY CONSULTANCY
- 7. INTERNATIONAL BUSINESS
- 8. BANKING TRAINING SCHOOL
- 9. CURRENCY EXCHANGE OFFICE





## 1.3 Cecabank's presence

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



### INTERNATIONAL BUSINESS

- OPERATING BRANCHES
- London
- Lisbon

- REPRESENTATIVE OFFICES
- Frankfurt
- Covering the German and Swiss markets
- Paris
- Covering the French and Benelux markets



# 1.4 Shareholder structure

## 1.4.1 Shareholders

Cecabank's shareholders are:

CECA is Cecabank's majority shareholder with 89.08% of the total holding

**CECA**

No. of Shares  
100.000.000  
% of shares

**89.08%**

**CAIXABANK, S.A.**

No. of Shares  
3.059.729  
% of shares

**2.73%**

**BANKIA, S.A.**

No. of Shares  
2.148.106  
% of shares

**1.91%**

**KUTXABANK, S.A.**

No. of Shares  
1.352.325  
% of shares

**1.20%**

**LIBERBANK, S.A.**

No. of Shares  
888.958  
% of shares

**0.79%**

**IBERCAJA BANCO, S.A.**

No. of Shares  
765.561  
% of shares

**0.68%**

**ABANCA CORPORACIÓN BANCARIA, S.A.**

No. of Shares  
712.677  
% of shares

**0.63%**

**BANCO MARE NOSTRUM, S.A.**

No. of Shares  
700.086  
% of shares

**0.62%**

**BANCO DE CAJA ESPAÑA, SALAMANCA Y SORIA, S.A.**

No. of Shares  
669.866  
% of shares

**0.60%**

**BANCO BILBAO VIZCAYA ARGENTARIA, S.A.**

No. of Shares  
644.683  
% of shares

**0.57%**

**UNICAJA BANCO, S.A.**

No. of Shares  
629.574  
% of shares

**0.56%**

**BANCO SABADELL, S.A.**

No. of Shares  
574.171  
% of shares

**0.51%**

**C.A. Y M.P. ONTINIENT**

No. of Shares  
57.920  
% of shares

**0.05%**

**CAIXA D'ESTALVIS DE POLLENÇA**

No. of Shares  
52.884  
% of shares

**0.05%**

## 1.4.2 Shareholder structure

Cecabank's investments are aimed at the achievement of the bank's targets.

**As at 31 December 2017, its most significant investments are:**

**cea**TRADE  
Services Ltd.

**100%**

CEA TRADE SERVICE, TSL  
Management of letters of credit.

**ServiPagos**

**100%**

SERVIPAGOS S.A.  
Payment methods.

**trionis**

**78.62%**

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



**22.49%**

EUFISERV PAYMENTS SCRL  
Payment methods.



**14.44%**

AHORRO  
CORPORACIÓN, S.A.  
Financial services  
holding company.



**10.00%**

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

**iberpay**  
FACTORES BANCAIRIS DE SERVICIOS DE PAGOS

**9.20%**

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

**LICO**  
corporación

**8.85%**

LICO CORPORACIÓN, S.A.  
Leasing and banking  
services corporation.

**Caser**  
SEGUROS

**1.55%**

CASER, GRUPO  
ASEGURADOR  
Insurances.



## 1.5 Presence in national and international forums

Cecabank participates in many forums, at both national and international levels, **contributing to the development of the financial sector** from various fields of activity related to wholesale banking.

The establishment of the Banking Union has resulted in a solid relationship with the European Central Bank (ECB). From its branch in Frankfurt, Cecabank participates in various ECB working groups related to its financial activity.

On the other hand, the Paris representative office encourages interaction with other European supervisory authorities, such as the European Securities and Markets Authority (ESMA) and, shortly, the European Banking Authority (EBA).

Cecabank is supported by an **extensive network of experts** who put all their knowledge at the service of its clients. As a result of the acknowledgement of the different areas in which we specialise, we are asked to participate in the most relevant working groups in the industry.



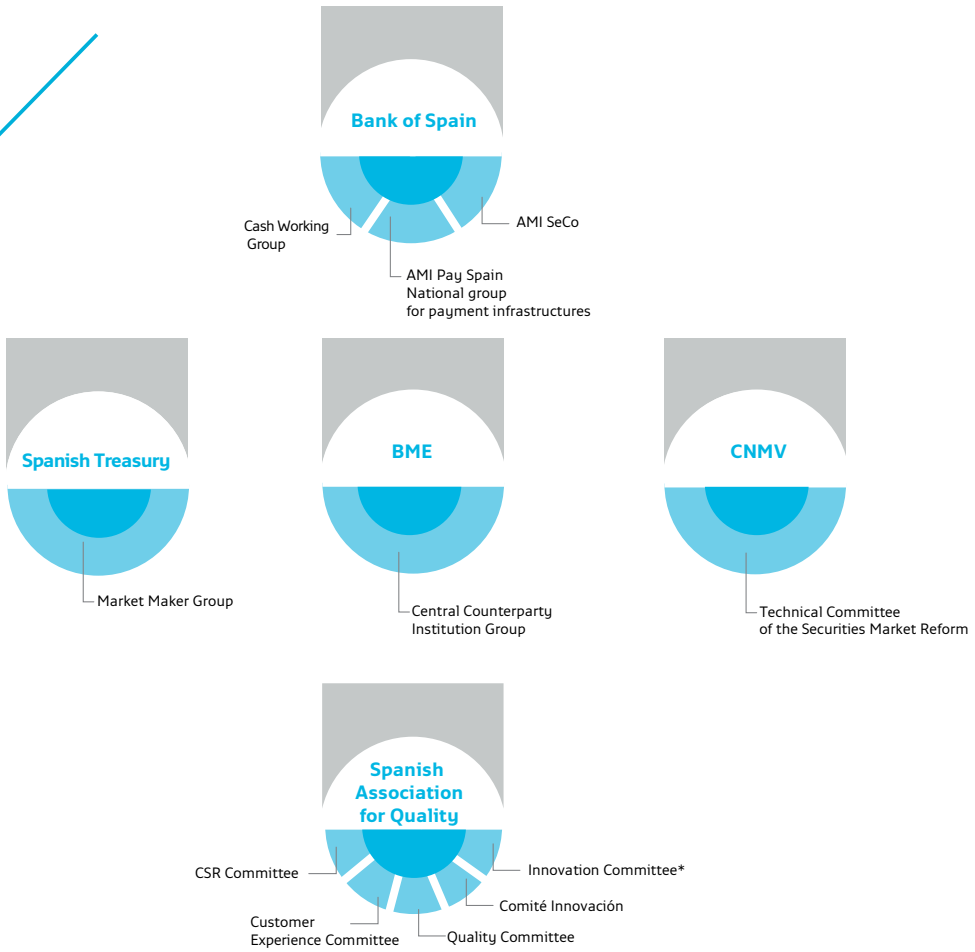
During 2017, we consolidated our **social channels**, thus expanding our corporate communication, becoming more transparent and raising the confidence among our clients. Through its corporate page on LinkedIn, Cecabank has achieved more than 4,100 followers, which is a considerable group of professionals. Meanwhile, we have reinforced our brand and business and given visibility to our products and services, generating contacts with potential customers.

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

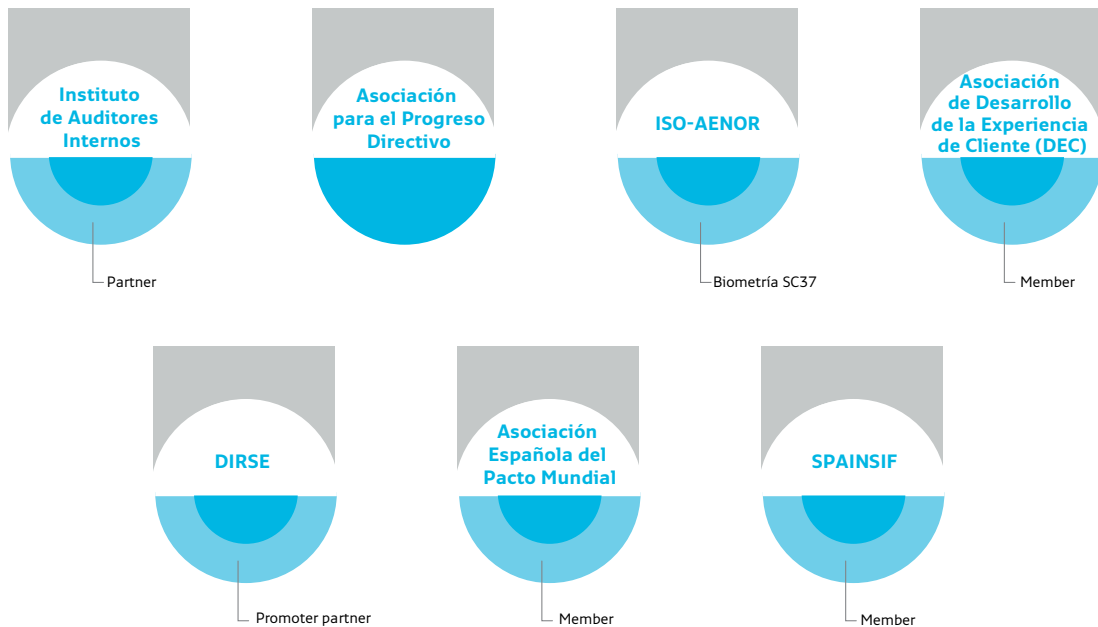


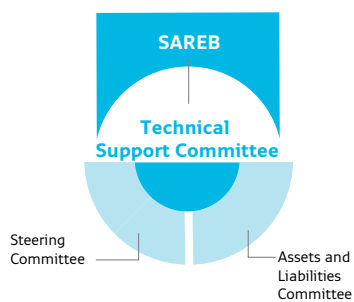
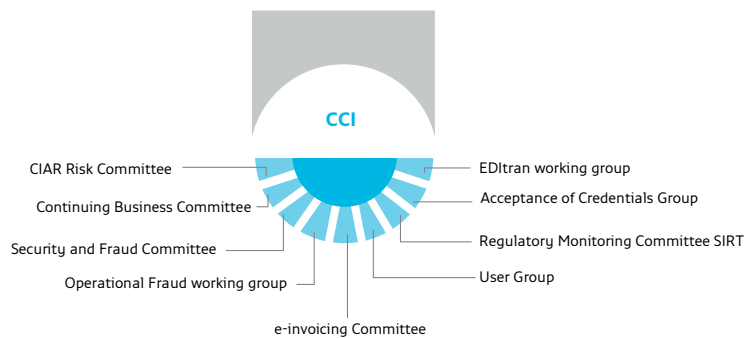
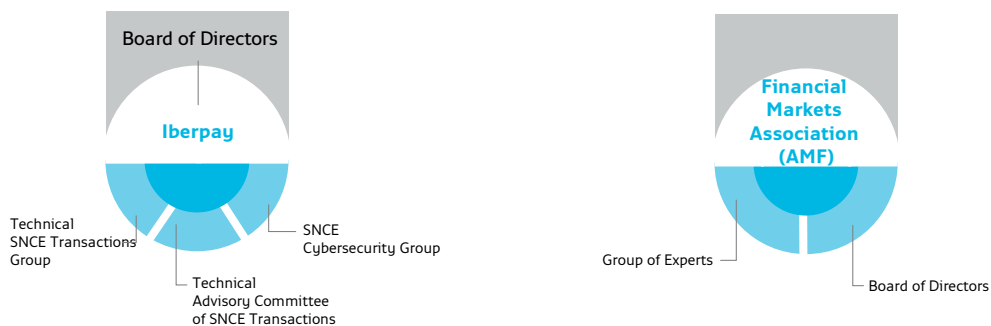
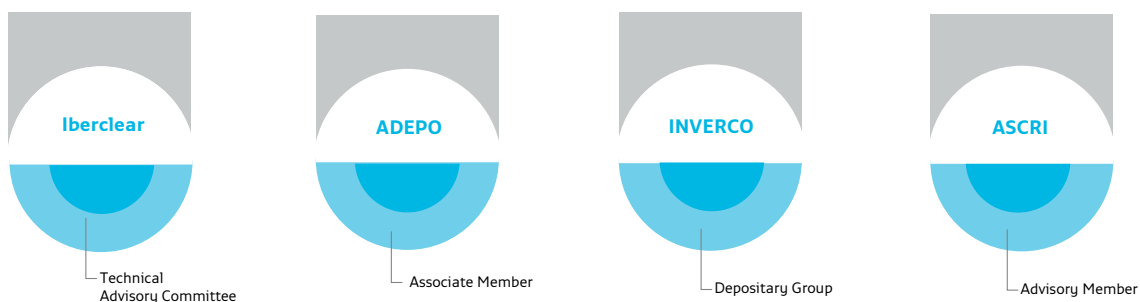


## NATIONAL REPRESENTATION FORUMS



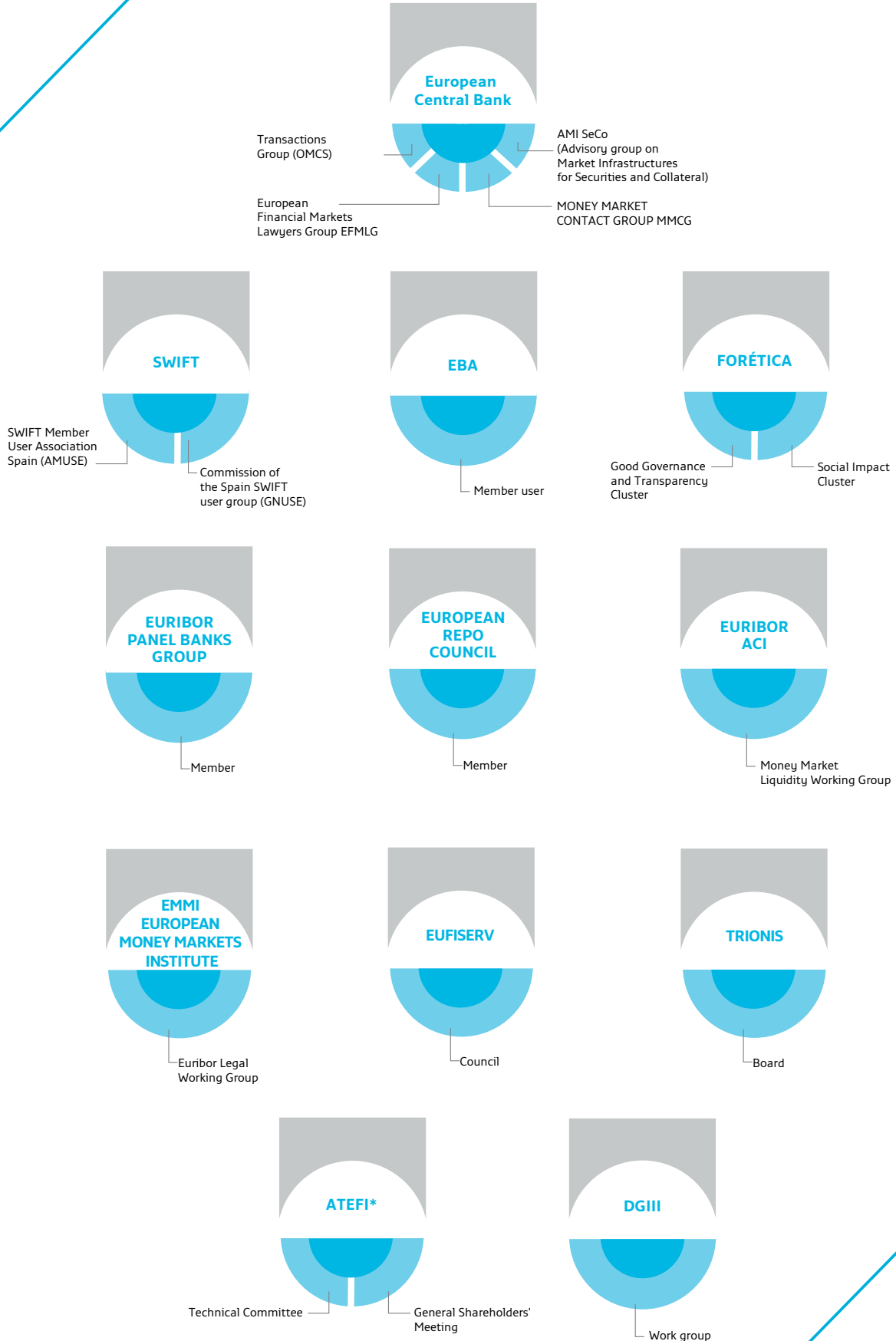
\*CSTIC: AEC (Spanish Quality Association) Community in Communications and Information Technologies and Systems







# INTERNATIONAL REPRESENTATION FORUMS





Principal Delegate

Partner



Member



Sponsor



Shareholders

Board of Directors



Shareholders



Shareholders



Permanent member



Permanent member



Guest



Guest



Guest



Guest



Vice-presidency

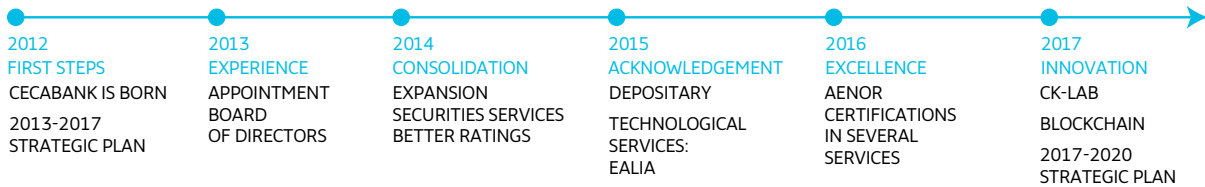


Member

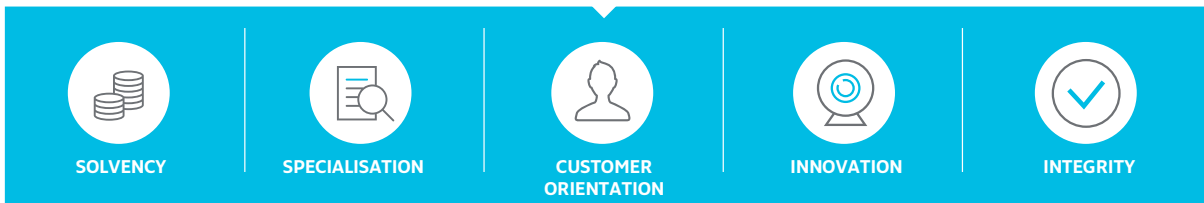


# 1.6 The consolidation of a project: 5th Anniversary of Cecabank

## The consolidation of a project



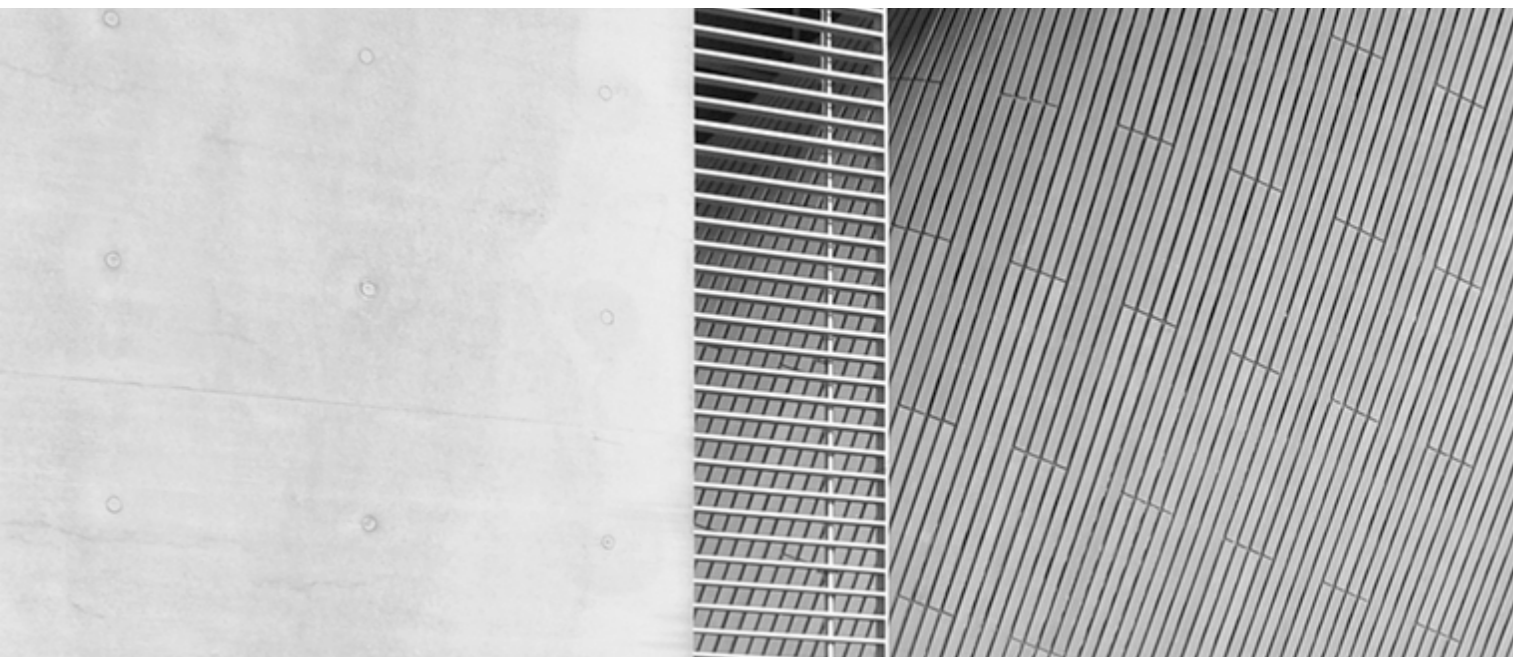
### CECABANK'S PRINCIPLES

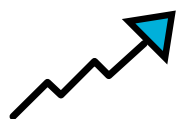


Cecabank celebrated its 5th anniversary in 2017.

The development of the business has been accompanied by a transformation in the corporate culture: customer orientation, and commitment to innovation and technology have involved a new way of working.

Since its inception, Cecabank has shown its commitment towards excellence and compliance with the highest standards of corporate governance. For this reason, a **Board of Directors** was appointed in May 2013 made up of significant professionals with extensive experience in the financial sector.





**Leadership in  
Securities Services**

Halfway through implementing the 2013-2017 Strategic Plan, the Securities Services business started to grow considerably, as evidenced by the results registered in 2014, which includes a rise in depositary services with assets reaching 64,500 million euros deposited, corresponding to 868 collective investment and pension fund institutions.

Cecabank is also beginning to take off as a reference in the collective investment industry with the launching of the Days of Securities Services, the first edition of which took place in 2014 and is today a reference in the Spanish financial industry, gathering over 300 sector representatives.

In the first half of 2015, the Comisión Nacional del Mercado de Valores (CNMV) appointed Cecabank as a depositary, replacing Banco de Madrid, which involved great recognition from the market.



**Commitment  
to technology**

Throughout these five years, Cecabank has continued to invest in technology and innovation as one of its main pillars, as we can see in the variety of services it has launched. Thus, in 2015 Ealia was born, a payments platform aimed at facilitating P2P payments via mobile phones. Subsequently, Cecabank initiated several projects to encourage the research and development of technological solutions in the financial field. An example of this is the development of strategies together with CK-Lab. In addition, Cecabank and Grant Thornton presented the first Blockchain Banking Consortium in Spain in 2017. This project intends to progressively develop the potential of blockchain technology in the financial sector.



**Recognised  
excellence**

Since 2012 the main rating agencies have echoed the consolidation of the bank's business model by improving its ratings on several occasions. In addition, different certifications were obtained for Cecabank services, such as the Payments and Collections Management System, the Pyramid service and the Information Security Management System. These have been certified in their respective categories by the Spanish Association for Standardisation and Certification (AENOR).

Furthermore, the training qualifications offered by the Banking Training School (EFB) on MiFID II have been approved by the CNMV, acknowledging Cecabank as an issuer of the Financial Commercial titles 'MiFID II' and 'Financial Adviser MiFID II'.

Cecabank has been recognised as the best custodian bank in Spain by the European magazine Global Banking & Finance Review, and the specialised British publication, The Banker, has included Cecabank in the Top 25 companies with the best BIS capital ratio in the world.

IV SECURITIES SERVICES  
CONFERENCE  
**+300**  
SECTOR  
REPRESENTATIVES

## 1.7 Where we are going: our 2017-2020 strategic plan

Cecabank commenced operations as a wholesale bank in November 2012. In a difficult context marked by economic and financial uncertainty, penetrating the market was not a small feat. However, the roadmap established in the first strategic plan with a 2016 horizon led the way to growing safely.

The 2013-2016 Strategic Plan established the bases that underpin the project and included a review of the portfolio of products and services. As a result of all the measures put in motion, Cecabank has been able to consolidate its business model and become the Spanish leader in *Securities Services*.

The 2017-2020 Strategic Plan was **approved by Cecabank's Board of Directors** in December 2016 and launched in January 2017, as a continuation of the 2013-2016 Strategic Plan's consolidation.

The 2017-2020 Strategic Plan intends to achieve growth while maintaining the same business structure.



### Securities Services

Expand the leadership as a depositary by complementing the services offered in the value chain and enter the Portuguese market.

### Treasury Management

Increase profitability of Securities Services streams by complementing the services offered in the value chain and consolidating the company's leading position in the banknotes business in Spain.

### Banking Services

Expand the current client base in a context of consolidation of the banking sector, with innovations in digital services and payment methods.

The defined **strategy reinforces the business of the three identified lines**. As a result, the services comprising Central Scenario have been differentiated in each business line, and a series of incremental services aimed at business growth through innovation of products and services and access to new markets have also been identified.





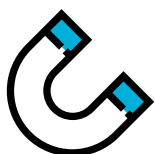
### Securities Services

**Central Scenario**

Depository  
Securities

**Incremental initiatives**

FADO Project  
(Portugal branch)  
Funds platform  
Expand value chain



### Treasury Management

**Central Scenario**

Trading Room  
Banknotes

**Incremental initiatives**

Access to the primary market  
Bonds platform  
Execution of equities  
*FX Sharing*  
*Securities Lending*



### Banking Services

**Central Scenario**

National and international payments  
Treasury Management and Risk Support  
Payment Methods  
Interactive Services  
Technological Services  
Regulatory  
Advice Reporting  
Banking Training School

**Incremental initiatives**

Promotion of digital services  
Digital payments Platform  
Currency exchange in payment networks

The plan also includes an ambitious **Internal Transformation Plan** comprising **10 initiatives** whose objective is to contribute to the achievement of the business goals via the design of a new culture of change.



## Internal transformation plan

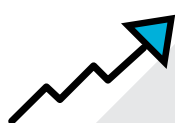
**OBJECTIVE**

Promote the culture of change.

**Initiatives**

- Commercial Plan
- Systems Plan
- CSR Plan
- Quality Plan
- Innovation Plan
- Blockchain*
- Communications Plan
- Talent Management Plan
- Corporate Governance Plan
- Efficiency Plan

In addition, the Strategic Plan includes the analysis of a series disruptive levers, the objective of which is to achieve a considerable impact that leads to a significant change of the institution's size.



## Disruptive levers

**OBJECTIVE**

Achieve a significant change of the institution's size.

**Levers**

- Corporate operations
- Strategic partnerships
- Internationalisation

All these initiatives have been established in the following objectives for 2020:

## Objectives of the 2017-2020 Strategic Plan

Estimates  
Position in 2020

GROSS  
INCOME  
**~270**  
million euros

RETURN (ROE)  
**9-11%**

EFFICIENCY  
(WITHOUT REPAYMENT)  
**40-45%**

SOLVENCY  
(TIER 1 CAPITAL RATIO)  
**20-25%**



## STRATEGIC PLAN'S GOVERNANCE MODEL

The Strategic Plan is led by Cecabank's Board of Directors and executed through the Plan's Monitoring Committee, whose members are *sponsors* of the defined services and initiatives. All the initiatives and services are assigned a manager with an implementation team, which entails **the direct involvement of over 50% of the staff** in the Strategic Plan's implementation. The implementation is followed from the Project Office specifically created for this purpose.

### 11 MONITORING COMMITTEES

Presentation of incremental initiatives, internal transformation initiatives.

### 4 QUARTERLY REPORTS

Subsequently, they were submitted to the Board of Directors.

#### SUBMISSIONS TO THE BOARD OF DIRECTORS

### 5 INCREMENTAL INITIATIVES

### 7 SERVICES CENTRAL SCENARIO

### 2 INTERNAL TRANSFORMATION INITIATIVES

## MAIN MILESTONES ACHIEVED IN 2017

During the first year of implementation of the 2017-2020 Strategic Plan, the following milestones were achieved:

#### Central Scenario

- Results above the budget, favouring the positive evolution of the financial margin.
- Consolidation of recurring income by renewing long-term contracts.
- Commissions grow with respect to 2016 due to new products and services.

#### Incremental initiatives

- Encouragement of incremental initiatives thanks to the Investment Plan approved in July, which will allow starting the generation of income in 2018.

#### Transformation initiatives

- Significant development in the implementation of internal transformation plans, promoting a culture of change aimed at the entity's values.

#### Disruptive levers

- The Global Business Development team is analysing different corporate operations.



During the first year of implementation of the 2017-2020 Strategic Plan, the following milestones were achieved:

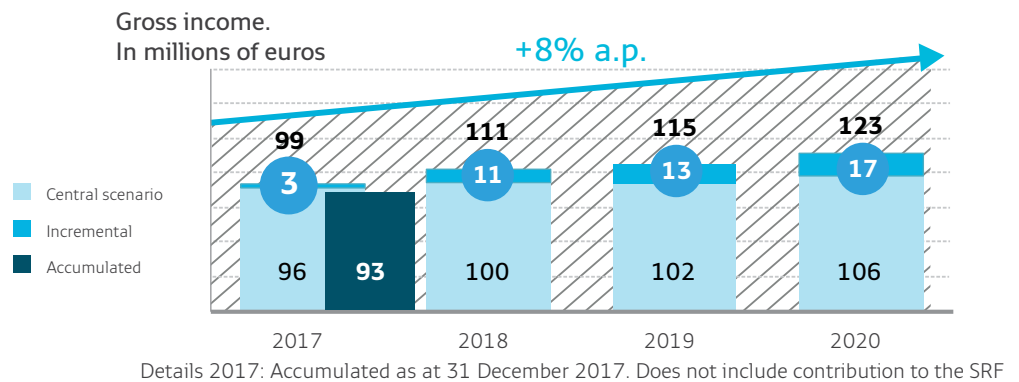


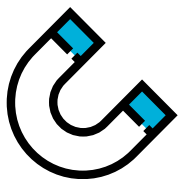
## Securities Services

- The intense commercial activity has allowed consolidating **the business** in the medium term thanks to the renewal of contracts and the diversification of clients with new entities outside the traditional environment (independent managing entities, venture capital and investment firms).

	Number of Funds	Equity (millions of €)
<b>UCITs</b>	<b>492</b>	<b>73,393</b>
<b>FPs</b>	<b>466</b>	<b>34,647</b>
<b>ECR</b>	<b>1</b>	<b>1</b>
<b>Total</b>	<b>959</b>	<b>108,041</b>

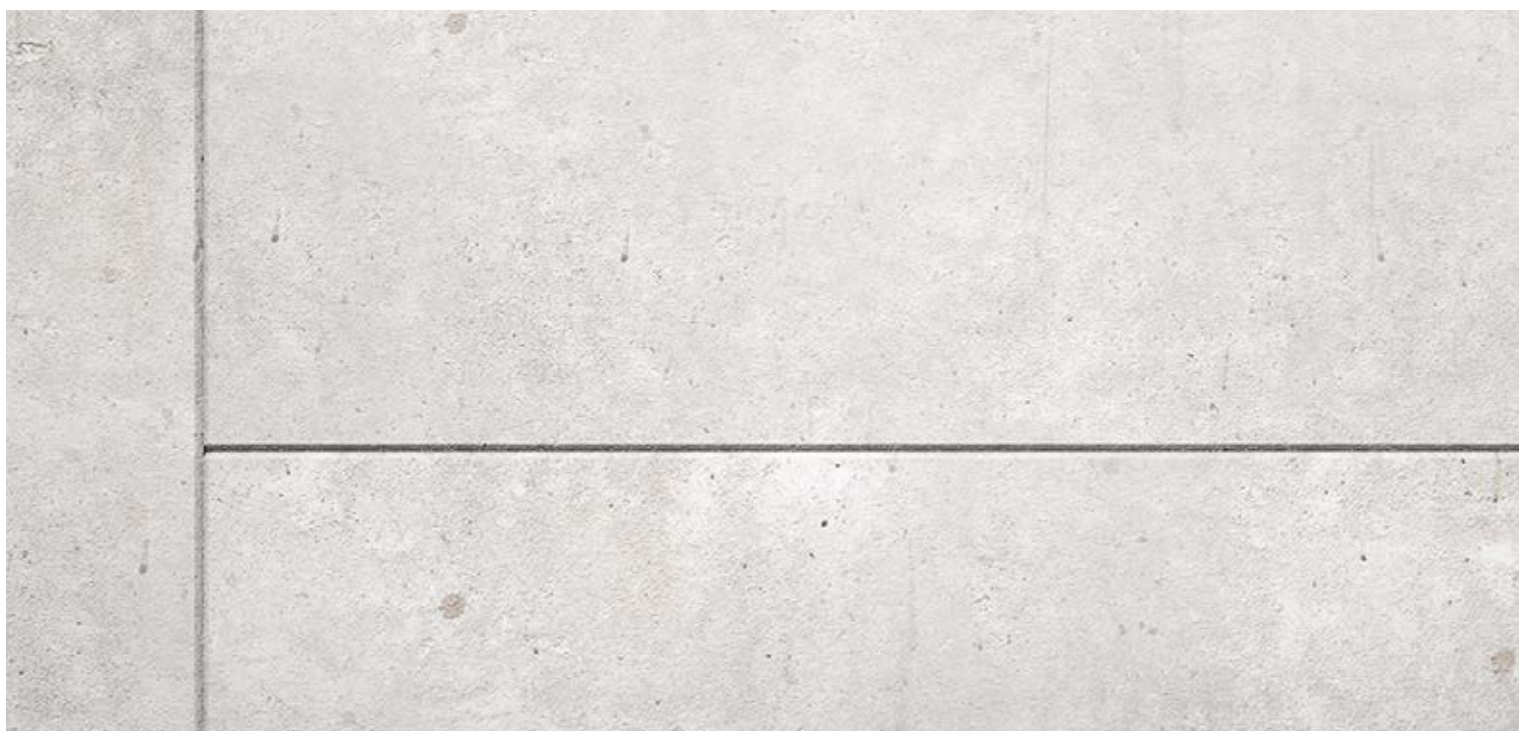
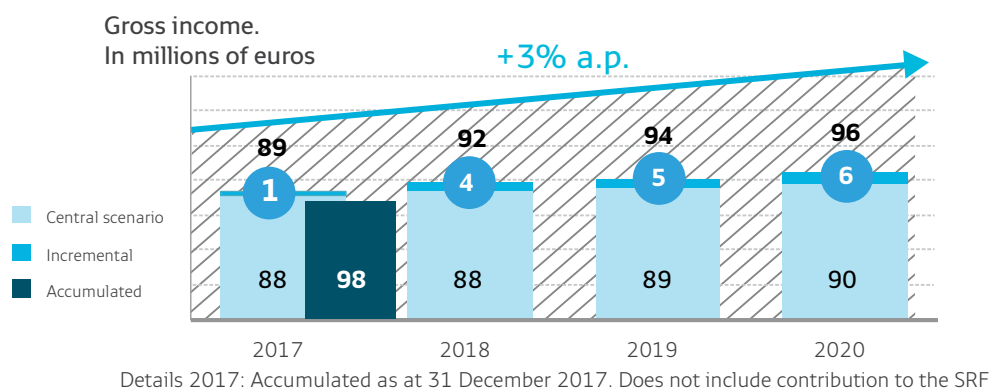
- We have created **new products and services** designed on the basis of clients' needs, among of which particularly stand out the Comprehensive Securities, the funds platform, starting our activity as a general clearing member for Spanish equities in LCH London and maintaining the shareholders' ledger.
- We have carried out the migration to T2S, providing coverage to the most advanced functionalities.
- We have completed the registration process of the new branch in Portugal, and we continue to advance towards obtaining the first client in the first half of 2018.





## Treasury Management

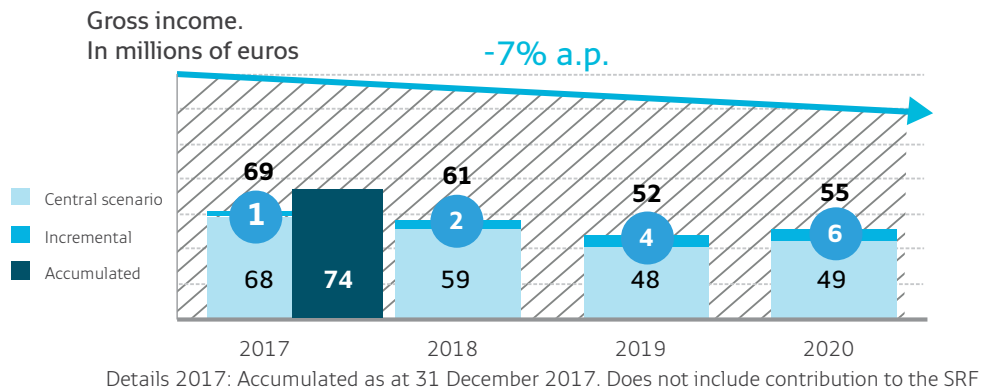
- The positive growth of results continues despite some volatility.
- We continue progressing in **client diversification**, obtaining operations with several clients outside the traditional sector.
- We promote the creation of new services, such as access to the primary market or the new bonds platform.





## Banking Services

- The diversification of products and services has resulted in a **higher growth than expected** in some of the banking services, such as the Banking Training School, the Comprehensive Reporting Service and the Treasury Management Platform.
- Entering the fintechs segment has occurred by participating in forums and via new contracts for Payment Methods and the Discounting, Clearing and Payment Service.
- We are currently working on the development of new **digital** services that are currently being adopted by clients.

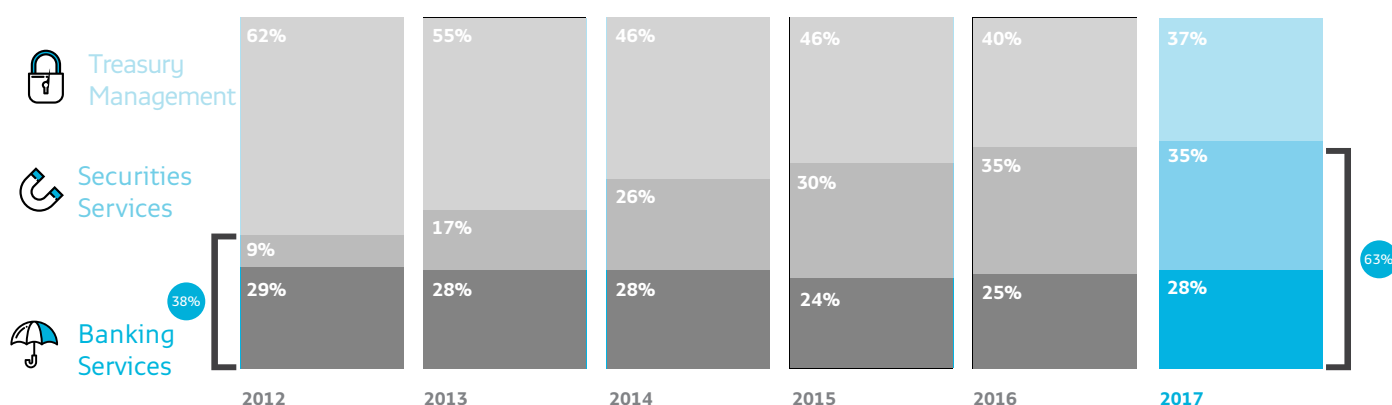




The development of this business model is consolidating a new, stable structure of provision to the gross income, based on commissions and other operating income which depend less on the financial margin.

## Diversification of income

The business mix continues to progress towards a better balance between commissions and financial margins.



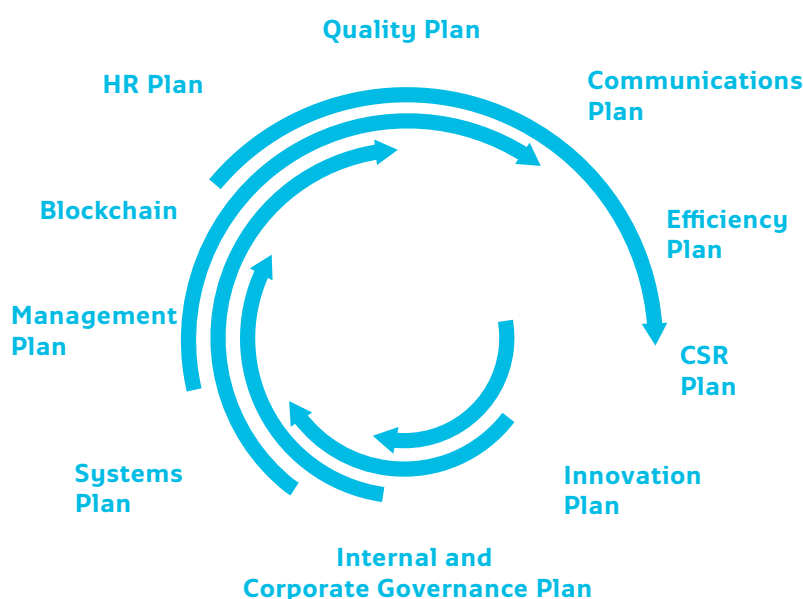
\* % contributed by each business line to the gross income.

## INTERNAL TRANSFORMATION PRINCIPALS GOALS

The implementation of internal transformation initiatives has allowed encouraging in 2019 a **culture transformation** through actions that have an impact on people, processes and the environment.

### PEOPLE:

- Teleworking
- Flexible working
- Times Flexible remuneration
- Definition of remuneration linked to objectives
- Employee participation Channels Internal
- Newsletter
- Ck BeWell
- Training in digital skills
- Internal communication channels (Tienes la Palabra, Hoy tengo una idea)
- Novalice Network
- Social action plan "tú eliges", solidarity meeting, Food Bank, blood donation, etc.



### PROCESSES:

- Quality certifications
- Commercial management processes
- Application of new agile methodologies
- Entry into T2S Global
- Innovation model
- Best practices of internal and corporate governance

### ENVIRONMENT:

- Companies4SDGs
- Blockchain consortium
- Transformation spaces
- More than 4000 followers on LinkedIn
- Food Bank Award

## 02 - Our purpose

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# 02

## **Our purpose: Mission, vision and values**

Cecabank's mission, vision and values are aligned with the institution's Strategic Plan and its objectives have been adjusted to the context in which it carries out its business and seek to fulfil the needs of all the bank's stakeholders.



# MISSION, VISION and VALUES

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

## Our main pillars

They are the **strategic values** that define and guide the way we work as a banking institution.

### CUSTOMER ORIENTATION

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

### INTEGRITY

Because we are convinced that transparency and soundness are the foundations on which to build our credibility.

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



## SPECIALISATION

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

## SOLVENCY

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

## INNOVATION

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

## 2.1 Customer orientation

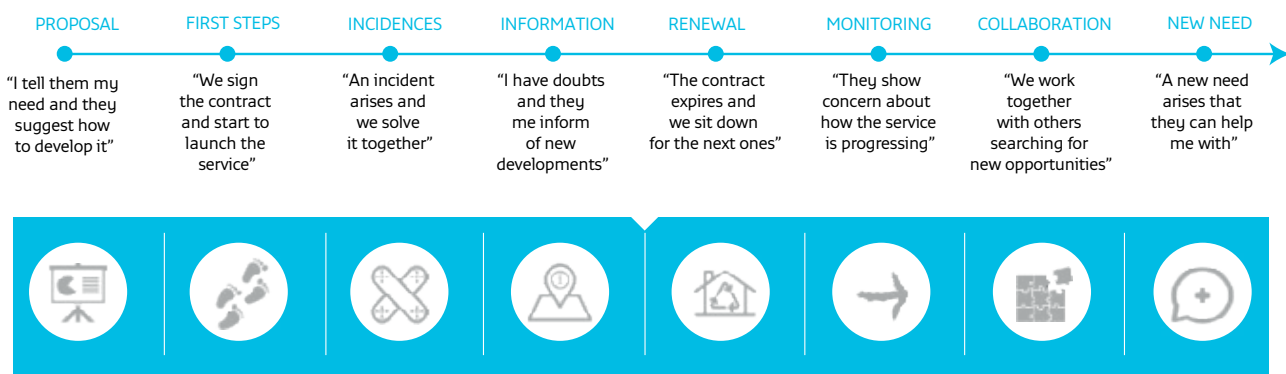
For Cecabank, the clients' satisfaction is a priority. Two outstanding and acknowledged strengths are the ability to **personalise** and adapt the services and **flexibility**, generally offered through modular products, which allow choosing the solution that best adapts to the different needs.

We work hand in hand with our clients, monitoring the quality of our products and services, and our team establishes a permanent communications channel that **constantly** intends to detect and satisfy their needs and priorities.

### Customer journey map

As it does every year, Cecabank has measured the satisfaction of both internal and external clients. In this financial year, we have evolved the satisfaction measuring model to a customer experience measuring model. To this end, a *customer journey map* of our services has been defined, which pays special attention to the "moments of truth".

To contrast the *customer journey map* that has been defined and learn about the most important aspects of interaction, a series of detailed interviews have been conducted on a representative sample of clients.





With the *insights* received, we prepared new surveys to determine the experience of our clients at any given time there is interaction and thus to detect any new needs and provide the different businesses with specific action levers.

We measure the satisfaction

160  
clients

86%  
WoW experience

8.3  
satisfaction index

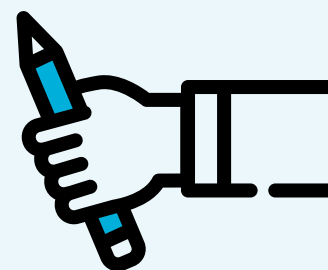
76  
entities

96%  
WoW experience in new clients

8.3  
recommendation index

77%  
continue trusting in Cecabank

Satisfaction survey



The recommendation index is 8.3.

Cecabank's commercial management is clearly oriented, marked and identified by the clients' needs. Proof of this is that in recent years a significant and continued effort has been invested in adapting and improving its products and services. Out of different means the institution has to consolidate this strategy, such as measuring the satisfaction of the quality perceived or developing improvements communicated by the clients, the **FOCO tool** stands out, which provides an overview of the relationship with the customer.

## 2.2 Integrity

Transparency and honesty are the foundations on which to build the institution’s credibility. To consolidate this foundation, at Cecabank **we apply the highest standards of good governance** and corporate responsibility, both in the portfolio of products and services and among the professionals that work in the entity.

### Good Governance

Cecabank’s Corporate Governance consists of a series of standards, principles and policies that govern the composition, structure and operation of the Governing Bodies (General Shareholders Committee, Board of Directors and its Committees), which are in line with the best practices of the sector and adapted to the regulatory requirements.

Within the framework of the new 2017-2020 Strategic Plan, an initiative of internal transformation of the internal governance and corporate governance plan has been considered, by virtue of which a series of activities have been carried out with the aim of pursuing a continuous adaptation of the institution to the standards and best practices of corporate governance.

- During 2017, the Board of Directors has extended its number of members to 14: 8 Proprietary Members, 5 Independent Board Members and an Executive-Director. Following the best practices of good corporate governance, the number of **Independent Board Members has increased from 4 to 5.**

Total No. Independent Board Members



However, on 21 December 2017, Mr. Antonio Massanell presented his resignation as a member and the chairman of the Board of Directors.

In terms of Corporate Governance Cecabank operates in line with the best practices of the.

The number of Independent Board Members in 2017 has increased from 4 to 5.

- The four Board of Directors' Committees have been restructured. They are all chaired by Independent Advisers and are composed of members with the knowledge, capacity and experience required for each case. The Board of Directors' Committees are:
  - Audit Committee
  - Appointments Committee
  - Remunerations Committee
  - Risk Committee
  
- The institution's Articles of Association have been amended to adapt them to the modifications of the Capital Companies Act and, particularly, Act 22/2015, of 20 July, on Account Auditing.
  
- As a result of the annual self-assessment carried out by the Board and its Committees, a Board of Directors Action Plan has been implemented, which focuses on adopting measures that could have a positive effect on the composition, activity, operations and effectiveness of the Board of Directors, as well as of its Committees.
  
- Ongoing work has been carried out to adapt the new regulations on corporate governance, for example, the implementation of the Technical Guide 3/2017 of the CNMV on Audit Committees.
  
- In terms of transparency, Cecabank annually publishes the Annual Report with its content adapted to the standardised model of the Annual Report on Corporate Governance (ARCG) as well as the Pillar III Disclosure Report.



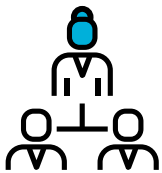
## Corporate Social Responsibility

Cecabank's Corporate Social Responsibility (CSR) is defined considering the business' wholesale nature and the specialised offer of financial services. The aim is **to reinforce the business and the long-term relationship with the clients** and partners, incorporating their social, environmental and good corporate governance concerns into the activity.

During 2017, Cecabank worked on defining its **2018-2020 Action Plan** by identifying the relevant issues for its business from a perspective of social and environmental impacts. On this basis, an action plan aligned with the second part of the institution's Strategic Plan will be prepared in the first quarter of 2018.

In addition, a series of specialised training initiatives are being carried out, for the members of the CSR and Sustainability Committee and other executives, with the purpose of acquainting the employees with the concept of sustainability applied to the financial business.

Cecabank's CSR policy is implemented in four scopes of action within the institution.



### Our employees

Cecabank considers its employees as its active principal, due to being essential in offering specialised professional services. As a result, in 2017 several initiatives were launched in the scope of conciliation, training and the improvement of the working environment included in the Human Resources Plan, which is another line of transformation included in the 2017-2020 Strategic Plan.



### Our business

The different business areas work towards incorporating environmental, social and good governance (ESG) aspects into their commercial offer, whether incorporating a dimension of sustainability to their traditional products or incorporating ESG products.

Among other things, 2017 was noted for the incorporation of Cecabank's office in London into the *Climate Bond Initiative* as an observer and for the Ealia multi-purpose payment platform, which enables users make donations to NGOs from a mobile phone in an easy and immediate way.

As a way of supporting the lines of business and as part of responsible management, Cecabank:

- Includes the extra-financial analysis in the analysis of the potential counterparties.
- Has implemented a series of risk management and control systems that provide security, solvency and transparency to the business' needs.
- Works tirelessly to obtain the recognition of its services' quality.



## Environment

Cecabank's business does not use intensively raw materials or material resources. However, at Cecabank we are aware of the need to use natural resources efficiently, and to this end, we have launched initiatives to reduce consumption. In 2017 LED lighting was implemented, gas oil was replaced by natural gas and the energy efficiency audit was approved in conformance with Royal Decree 56/2016 of 12 February.

On the other hand, Cecabank is considering the development of an Efficiency Plan in the lines of transformation defined in its 2017-2020 Strategic Plan.



## Social actions

In 2017 we have continued implementing the planned social actions:

- 3rd Edition of the 'Tú Eliges' ('You Decide') programme. Cecabank employees presented 19 projects out of which, after a vote, 7 winners were selected that proportionally shared 70,000 euros.
- Humanitarian emergencies. Donation campaigns have been launched to relieve the effects of Hurricane Irma (in collaboration with Acción contra el Hambre), the earthquake in Mexico (in collaboration with Unicef's Spanish Committee) and the Rohingya refugee crisis in Bangladesh (through Acción contra el Hambre). Cecabank has equalled the contribution made by the employees; therefore, the total amount almost reached 24,000 euros.
- Donations in kind. Within the framework of the campaign "Compartiendo Navidad" (Sharing Christmas), Cecabank initiated Operación Kilo (Kilo Operation) at the Food Bank, which collected (virtually via an ad-hoc platform) 1,662 kilos, equivalent to 4,135 euros, to which Cecabank added 6,000 euros more.
- During 2017, 11 entities have benefited from the donation of 157 computers, which has provided them a second use.
- With regard to its collaboration with the Food Bank of Madrid, in addition to the Operación Kilo, Cecabank supports this organisation by sponsoring a street at its Colegio de San Fernando headquarters and an avenue at the new facilities of Alcalá de Henares. The donation of computer equipment was added to this collaboration. As a result of this support, the Food Bank awarded Cecabank a prize in October of 2017.
- Other occasional collaborations. Within the framework of the 5th Centenary of the birth of Caballero de Gracia, Cecabank sponsored the International Cycle of Organ Concerts held in the church with the same name that is next to our head offices. Furthermore, a contribution was made to the campaign "Sus derechos en juego" (Your rights at stake) organised by the Red Cross to purchase non-military-related or non-sexist toys as Christmas presents for children of destitute families.

3rd Edition of the 'Tú Eliges' ('You Decide') programme



Cecabank has gradually included social, environmental and good governance concerns to its activity.

## 2.3 Specialisation

One of Cecabank’s major strengths resides in offering products and services with a high level of specialisation. The *expertise in finance*, technology and business accumulated by its employees is the basis to offering products that incorporate high added-value.

2017

Training

**27,109**

hours

Training quality

**87%**

satisfaction

Online training

**45%**

Face-to-face training

**55%**

Staff

**100%**

participated in a training activity

Investment

**807€**

average per employee

### Talent management

Crece/, the Talent Management Plan, incorporates a comprehensive performance management model, a training portal 2.0, internal mobility policies, teleworking, flexible remuneration, a wellness programme and new working spaces, and it is all interconnected and accessible via the new employee portal called *People Korner*.

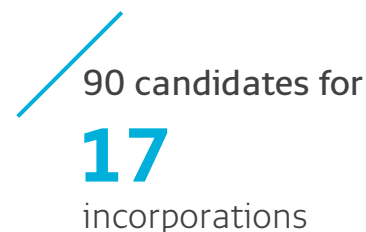
The training plan was designed to be aligned with the organisation’s strategic needs, encouraging the specialisation of teams by means of official certifications. We have promoted the use of flexible working methods and their application in new digital environments through high-impact and **innovative training activities**. All this has focused on contributing to the transformation and growth of Cecabank.

We have also encouraged healthy living habits by means of actions aimed at improving the self-concept, stress control and postural hygiene.



During 2017, continuing with the policy of functional mobility and adjustment of profiles to the positions required covering and with talent retention and management being a strategic objective of the institution, we have reactivated the internal calls in the last quarter of the year, initiating 9 processes to cover 10 vacancies with different profiles. In addition, 10 transfers have been made within the company.

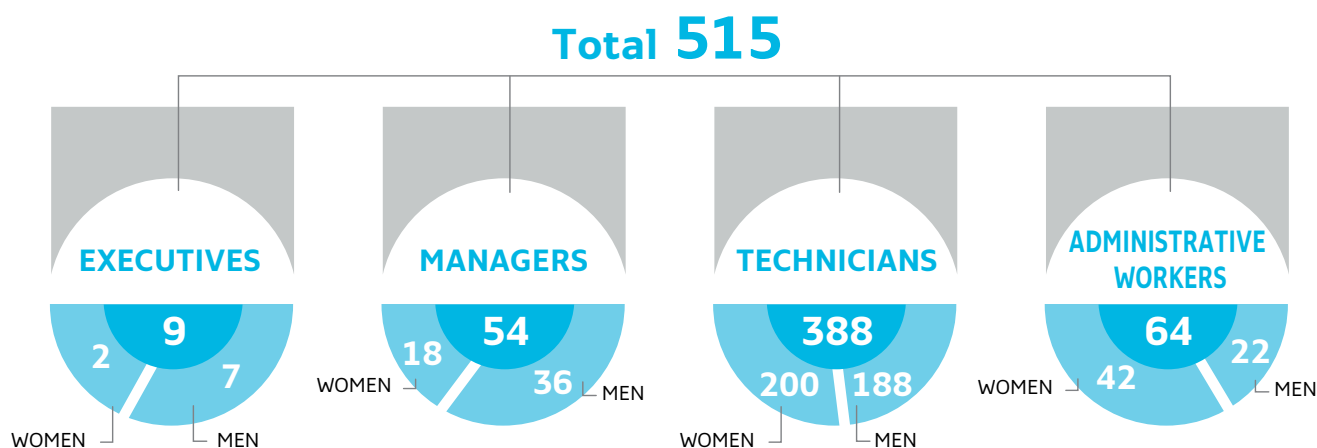
With the purpose of incorporating profiles that add value and talent to the organisation, Cecabank incorporated 17 new employees after carrying out a selection process with 90 candidates.



In order to assist in the labour integration of new university graduates, scholarships were again awarded to students, supported by the Educational Cooperation Agreements entered with the most relevant Universities and Business Centres of Madrid. In 2017, 50 candidates participated in the open processes, and finally 10 scholarships were awarded with Cecabank, providing the candidates the opportunity to complete their studies with the practical training given by our company.



At 31 December 2017, Cecabank had 515 employees (253 men and 262 women), all with a permanent contract. The distribution of the staff in the different levels is as follows.



## Quality

The new Strategic Plan includes the Quality Plan as another transformation initiative, with the aim of extending a culture of customer orientation and continuous improvement throughout the organisation. To this end, three lines of work have been defined:

- Implementing quality management systems in those areas in which a certification is a differential value.
- Measuring and analysing the client's voice, considering client information as a key aspect of the business when it comes to making decisions.
- Establishing improvement plants aimed at:
  - Improving the quality of our processes (0.0 goal, zero delays, zero non-fulfilments).
  - Improving the clients' experience, as it is the basis to establish long-lasting and trusting relationships with them.

Throughout 2017 the institution has worked towards implementing the requirements of the new ISO 9001:2015 standard in certified services. In October 2017 the Payments and Collections certification was renewed under the new standard's criteria, and the rest will be renewed in early 2018.

### Certifications and acknowledgements



Fund Depository



Securities Custody and Settlement



Discount, Clearing and Payment System



Financial Reporting



CMMI in Design and Development



Best Custodian Bank 2017 - Global Banking & Finance Review

## 2.4 Solvency

One of Cecabank's major signs of identity is its creditworthiness. The bank was named **best Spanish bank by BIS capital ratio** by the British specialised magazine **The Banker**. The publication also included Cecabank in the Top 25 companies with the best BIS capital ratio in the world.

Maintaining a high level of solvency is one of Cecabank's strategic targets. Its speciality in Securities Services requires these maintaining this level in order to maintain the trust of its customers: management companies and financial institutions.

The institution was named best Spanish bank by BIS capital ratio by the British specialised magazine *The Banker*.

### SOLVENCY

27.43%

CET 1 Ratio at 31 December 2017.

Cecabank has efficient internal control systems and rigorous and complete risk management and measurement processes.

## CET1 RATIO

Cecabank's CET 1 Ratio at 31 December 2017 was **27.43%**.

The Board of Directors of Cecabank establishes the type and thresholds of acceptable risk to achieve the corporate objectives, and it holds ultimate responsibility for the risks incurred by the bank and performance of its activities. This body defines the general policies with regard to the assumption of risks. 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.

### Corporate risk map

The following risks have been considered relevant in the development of the business:

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

**Market risk** is defined as the risk affecting results or capital and resulting from adverse movements in the prices of bonds, securities and exchange rates in operations registered in the trading portfolio. In addition, it includes foreign currency risk, defined as the current or potential risk affecting results or capital and resulting from adverse movements in exchange rates in the investment portfolio's operations.

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

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



**Operational risk** is the risk of suffering losses because of the inadequacy or flaws of the processes, people or internal systems, or due to external events, including legal risk. The operational scope covers the management of the different types of operational risk affecting the bank as a whole, including technological risk, externalisation risk and fraud risk, among others.

## RISK APETITIVE FRAMEWORK

The risk tolerance defined by the Board sets a conservative strategy which aims to maintain a moderate-low risk profile focused on keeping the quantity and quality of capital, with solvency levels clearly above the regulatory minimums, allowing us to anticipate that none of the risks identified could generate losses which could not be withstood within the normal operations of the bank.

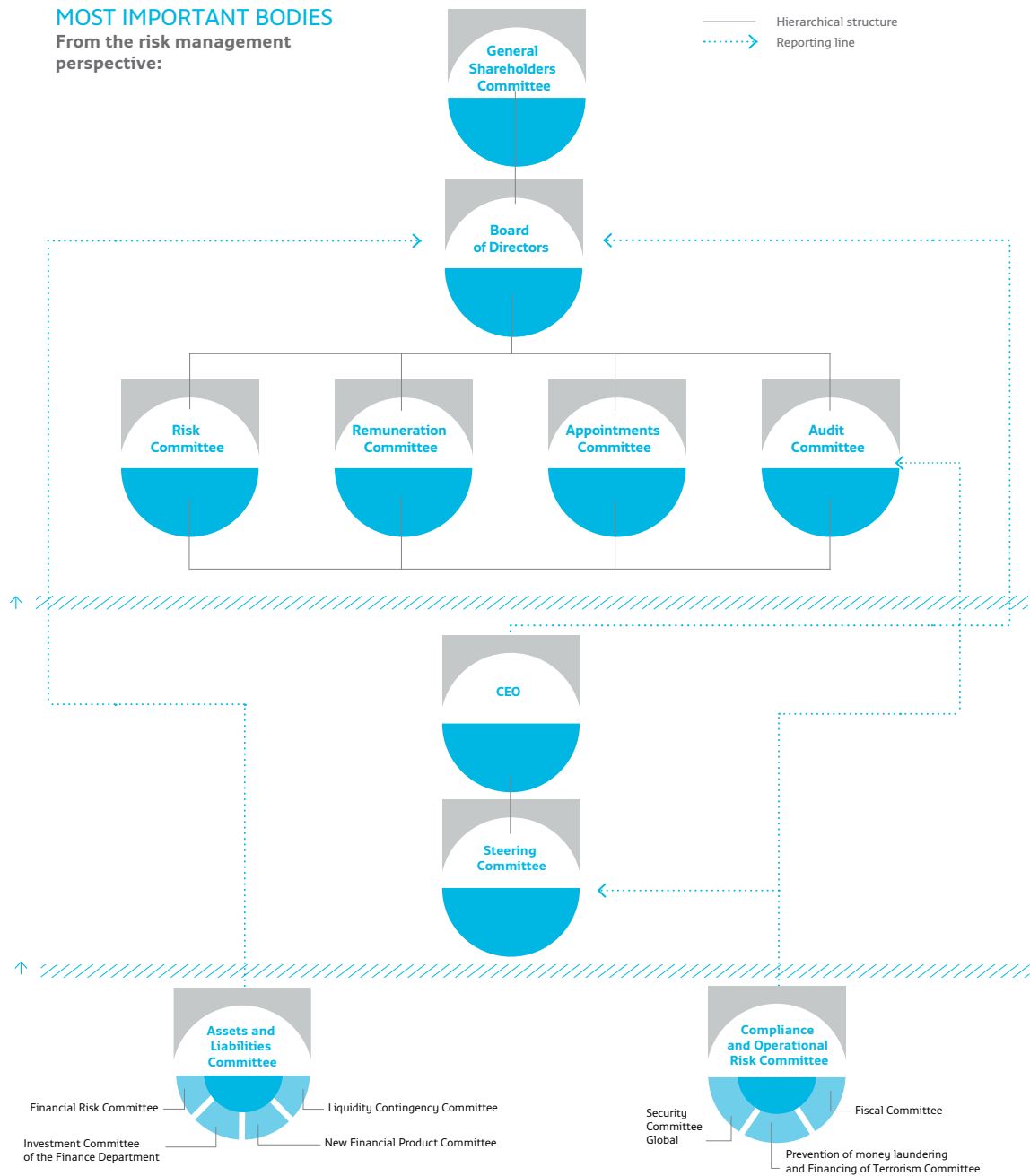
The results of applying this philosophy are seen in a highly prudent risk profile, in particular with regard to high levels of solvency and a comfortable liquidity position.

### The internal control framework

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

## STRUCTURE AND ORGANIZATION

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



This organisation ensures a suitable guardianship thanks to the governing bodies and executive committees, as well as to the specialisation of the human resources.

The establishment of a framework of information enables the Board to monitor the evolution of the relevant risks and assess the suitability of the risk assumption and investment policy.

In addition, the senior executive periodically reviews the suitable implementation of the risk strategy and the risk profile’s monitoring structure.

## 2.5 Innovation

At Cecabank we are aware of our clients' need to find the best solutions in a demanding market. We know that in this context, **creativity and innovation** are the main pillars to offer cutting-edge products and services, and therefore, we have developed a series of strategies that support this objective.

### Commitment to R&D&I

The Strategic Plan contains an Innovation Plan that was launched in January 2017 and whose objective is to implement a global innovation model for the entire institution that is aligned with the objectives of the Strategic Plan.

**Innovation** has become a major **lever that drives business growth**. In this spirit, in 2017 a considerable effort was invested in innovation for new products and services, such as the Comprehensive Securities Solution, the MiFID II certification programme, the funds platform, the access to the primary market and the *Pyramid Analysis*.

Another pillar of innovation in 2017 was the access to new markets. The **Lisbon office was opened**, which is running on all cylinders, and the Treasury Management business is being fostered via our London office. Internationalisation is one of the bank's objectives, and therefore, it is continuously exploring opportunities, mainly in Latin America and Europe.

With regard to research and development, significant investment was carried out focusing mainly on technological projects related to Treasury Management platforms, Securities Services, payments and mobility.

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

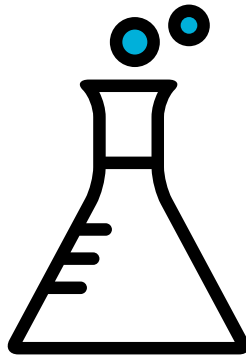
### Commitment to R&D&I

Via the Innovation Plan established in the Strategic Plan:

- Comprehensive Securities Solution
- MiFID II certification programme
- Funds platform
- Access to the primary market
- *Pyramid Analysis*
- Internationalisation
- Technological projects

## CK-LAB

Ck-Lab is a multidisciplinary initiative whose aim is to **promote the financial sector's** digital transformation, encouraging collaboration between entities, whether banks or *fintechs*.



### CK-Lab

Multidisciplinary initiative whose aim is to promote the financial sector's digital transformation, encouraging collaboration between entities, whether banks or *fintechs*.

#### ACTIONS 2017

Workshops in the payments scope

PSD2

Smart or digital strategy

eData

Fintech Forum Agreements and Fintech and Insurtech



## Blockchain Consortium

The blockchain bank consortium, integrated by Cecabank and the professional services firm Grant Thornton, has developed together with a group of 7 entities that represent 33% of the Spanish banking system the first practical application with blockchain technology in Spain. It is a tool that allows simulating the registration of a client in a financial institution by sharing the documentation required for this process, such as the National ID document and the payslip, between different entities via a blockchain network, guaranteeing the confidentiality and integrity of the data in the entire process.



## 03.- Corporate Governance

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# 03

## Corporate Governance

Cecabank's Corporate Governance consists of a series of standards, principles and policies that govern the composition, structure and operation of the Governing Bodies (General Shareholders Committee, Board of Directors and its Committees), which are in line with the best practices of the sector and adapted to the regulatory requirements.

# INTEGRITY

Transparency and soundness



14 members

8 Proprietary Members • 5 Independent Board Members • 1 Executive Director



Following the best practices of good corporate governance, the number of Independent Board Members has increased **from 4 to 5**.





## 3.1 General Shareholders Committee

### Operation and related issues

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

In 2017 the General Shareholders Committee met on two occasions, in which the following was agreed:

- Ordinary Shareholders' Meeting - 22 March 2017:
  - The approval of the Annual Accounts, Management Report and appropriation of earnings, as well as the management of the Board of Directors, all corresponding to the financial year ended 31 December 2017.
  - The creation of a capitalisation reserve.
  - The re-election of the company accounts auditor.
  - The amendment of the Articles of Association in regard to the Audit Committee, with the aim of adapting them to Capital Companies Act, which was amended by Act 22/2015 of 20 July on Account Auditing.
  - The approval of a revised text of the Articles of Association.
  - The maximum level of variable remuneration for the year 2017 of staff whose professional duties have a significant impact on the institution's risk profile.
- Extraordinary Shareholders' Meeting – 24 July 2017:
  - The appointment of Mr. Víctor Manuel Iglesias Ruiz as a Proprietary Director.

## 3.2 Board of Directors



From left to right.

**SANTIAGO CARBÓ VALVERDE**  
Member / Independent

**CARMEN MOTELLÓN GARCÍA**  
Member / Independent

**FRANCISCO JAVIER GARCÍA LURUEÑA**  
Member / Proprietary

**FRANCISCO BOTAS RATERA**  
Member / Proprietary

**MANUEL AZUAGA MORENO**  
Vice-chairman / Proprietary

**ANTONIO ORTEGA PARRA**  
Member / Proprietary

**ANTONIO MASSANELL**  
Chairman\*

**JOSÉ MARÍA MÉNDEZ ÁLVAREZ-CEDRÓN**  
Director – CEO / Executive

**JESÚS RUANO MOCHALES**  
Member / Proprietary

**JULIA SALAVERRÍA MONFORT**  
Member / Independent

**VÍCTOR MANUEL IGLESIAS RUIZ**  
Member / Proprietary

**JOSÉ MANUEL GÓMEZ DE MIGUEL**  
Member / Independent

**MARÍA DEL MAR SARRO ÁLVAREZ**  
Member / Independent

**JOAQUÍN CÁNOVAS PÁEZ**  
Member / Proprietary\*\*

\*On 21 December 2017, Antonio Massanell presented his resignation.

\*\* On 30 January 2018 Joaquín Cánovas presented his resignation due to BMN's integration into Bankia.

## Operation and related issues

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

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

In 2017, the Board of Directors met on eleven occasions, at the Chairman's initiative, and they analysed, among other matters:

- Monitoring of the 2017-2020 Strategic Plan
- Monitoring of the income statement and balance sheet
- Opening of the Portugal branch
- Expansion of the Securities Services business
- Monitoring of the depository business of Collective Investment Undertakings
- The suitability assessment of Directors and the Board of Directors as a whole
- The Board of Directors' Action Plan
- The Plan for continuity and succession of Board of Directors members
- The renewal of the composition of the Board's delegated Committees
- The modification of the General remuneration policy.
- The modification of the Articles of Association and the Regulation of the Audit Committee
- The creation of a capitalisation reserve
- The comprehensive reports on the activities carried out during the financial year by the Board's delegated Committees

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

## Period of performance of the role

The Directors perform their duty for a period of six years, although they can be re-elected one or more times for a period of the same duration.

## 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 on the regulation, supervision and solvency of credit institutions.

- **Director Selection Policy:** In accordance with the regulations on the suitability of the members of the Board of Directors, Cecabank has a Board member selection policy.

In May 2016, the Board of Directors approved the Director Selection Policy, the purpose of which is to ensure that the procedures of selection, appointment and renewal of the members of the Board are aimed at a suitable composition of the Board and of its Committees, in accordance with that established in the regulation. 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.



- **Policy on the representation target for the gender that is least represented on the Board of Directors:** In November 2014, the then Appointment and Remuneration Commission approved the Policy on the representation target for the gender that is least represented on the Board of Directors. This Policy contains guidelines on how to increase the number of individuals of the sex that is least represented, that is, females.

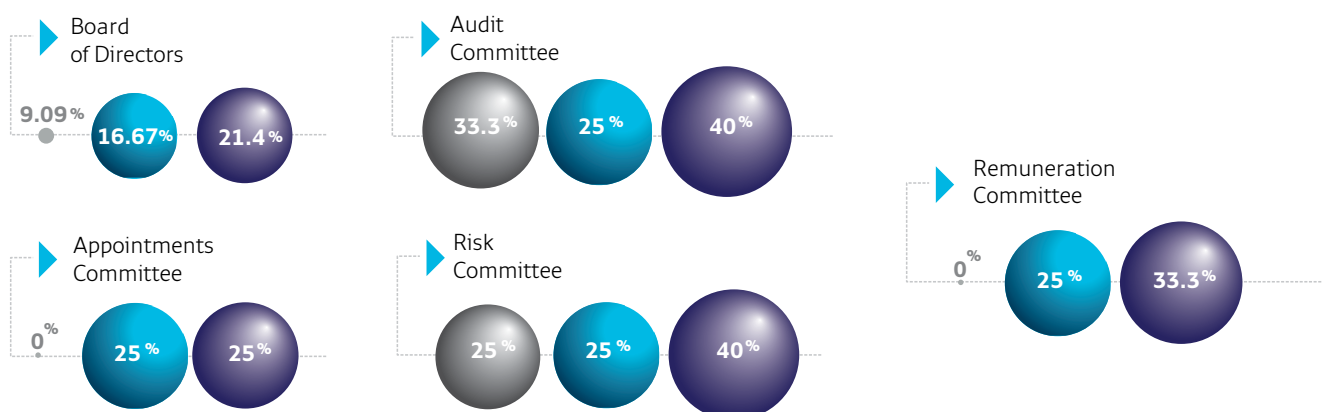
The approved Policy sets as a short term goal, that in 2015 at least fifty percent (50%) of independent board members should be women. In the medium term, the goal for the representation of women on the Board of Directors is that it should be on an upward trend, with the ultimate objective being to reach 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 accepted the Policy's approval.

The General Shareholders' Meeting held on 20 December 2016 appointed a new proprietary board member (male) and an independent board member (female), which joined the Board in 2017.

In March 2017, following the announcement of resignation by the Vice-chairman Mr. José Luis Aguirre Loaso, CECA, Cecabank's majority shareholder, advocated the appointment of Mr. Víctor Manuel Iglesias Ruiz as Proprietary Director, who was named so in the General Shareholders' Meeting held on 24 July after the institution and the Banco de España verified the compliance with the suitability requirements.

### Development of female members of the Board of Directors and its Committees

● 2014 ● 2016 ● 2017



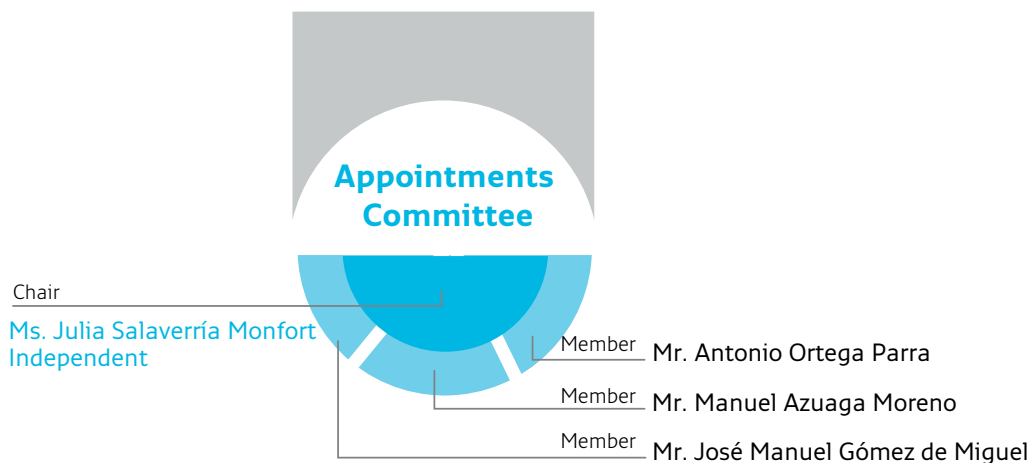
On 21 December 2017, Mr. Antonio Massanell presented his resignation as a member and the chairman of the Board of Directors.

## 3.3 Board of Directors' Committees

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

### 3.3.1 Appointments Committee

The composition of the Appointments Committee as of 31 December 2017 is:



### Operation and related issues

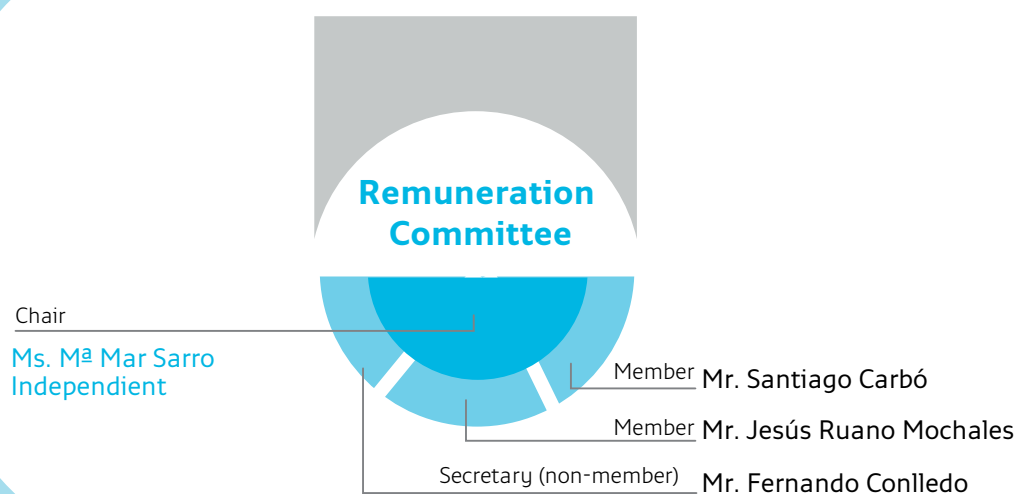
This Appointments Committee, in accordance with the provisions established in article 39 of the Articles of Association and its own Regulation, is responsible for, among other duties, selecting and recommending candidates for positions on the Board; assessing the Board's balance in terms of knowledge,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

During 2017, the Appointments Committee met on six occasions, in which among other issues the following were discussed:

- The selection, assessment and appointment of a Proprietary director
- The assessment and appointment of the Board of Director's Vice-chairman
- The suitability assessment of the members of the Board of Directors and the latter as a whole
- The Plan for continuity and succession of the Board of Directors
- The Procedure for self-assessment of the Board of Directors and its delegated Committees
- The 2017-2020 Talent Management Plan
- The training needs of the Directors

### 3.3.2 Remuneration Committee

The composition of the Remuneration Committee as of 31 December 2017 is:





### Operation and related issues

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

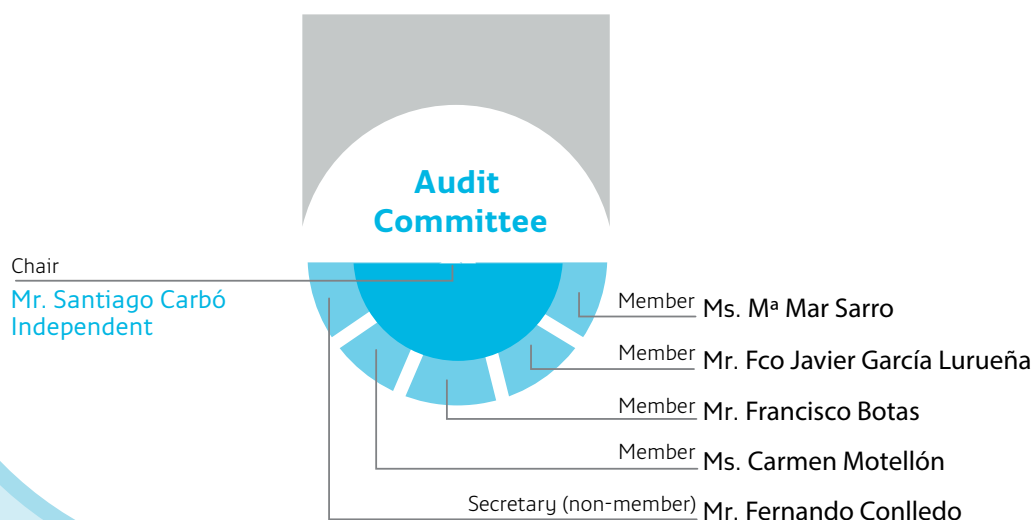
During 2017, the Remuneration Committee met on four occasions, in which it analysed, among other issues:

- The modification of the Directors' Remunerations Policy
- The modification of the General Remunerations Policy
- The 2017-2020 Talent Management Plan



### 3.3.3 Audit Committee

The composition of the Audit Committee as of 31 December 2017 is:



#### Operation and related issues

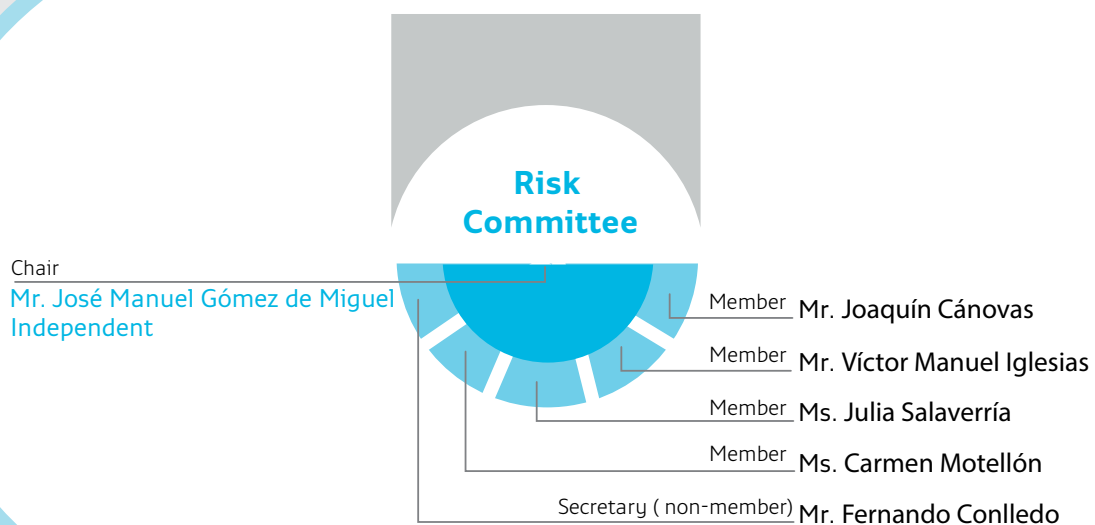
The Audit Committee, in accordance with the provisions established in article 38 of the Articles of Association and its Regulation, is responsible for, among other duties supervising the effectiveness of the internal inspection, internal audit, and risk management systems; monitoring the process of preparing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

During 2017, the Audit Committee met on five occasions, in which it analysed, among other issues:

- The Transparency Policy
- The control function and its annual reports
- The report by an external expert on the prevention of money laundering and the financing of terrorism
- The auditor’s independent report on Customer asset protection
- The external Audit report on the contribution to the Single Resolution Fund
- The operational risk management framework
- The Policy of relations with external auditors
- Cecabank’s supervisory function as a depositary

### 3.3.4 Risk Committee

The composition of the Risk Committee as of 31 December 2017 is:



## Operation and related issues

The Risk Committee, in accordance with the provisions established in article 41 of the Articles of Association and its Regulation, is responsible for, among other duties:

- Advising the Board of Directors on the company's overall propensity to risk, both current and future, and its strategy in this field, and to assist it in monitoring the application of that strategy.
- Ensuring that the pricing policy of the assets and liabilities offered to customers fully take into account the business model and the institution's risk strategy.
- Defining, together with the Board of Directors, the nature, amount, format and frequency of the information on risks that the Committee itself and Board of Directors must receive.
- Collaborating in the establishment of rational remuneration policies and practices.

During 2017, the Risk Committee met on six occasions, in which it analysed, among other issues:



- The risks and solvency situation of the institution
- The Capital Auto-assessment Report (CAR)
- The Pillar 3 Disclosure Report
- The Recovery Plan
- The new Operational risk management framework
- The review of the Risk Tolerance Framework



## 3.4 Steering Committee



**José María Méndez Álvarez-Cedrón**  
CEO



**Agustín Márquez Dorsch**  
Assistant Managing Director of the Technological Department and Overall Business Coordinator



**Antonio Romero Mora**  
Corporate Director of Association Services, Audit and Resources



**Ainhoa Jáuregui Arnáiz**  
Planning Corporate Director



**Francisco Javier Planelles Cantarero**  
Corporate Director of the Area of the Operative Services Department



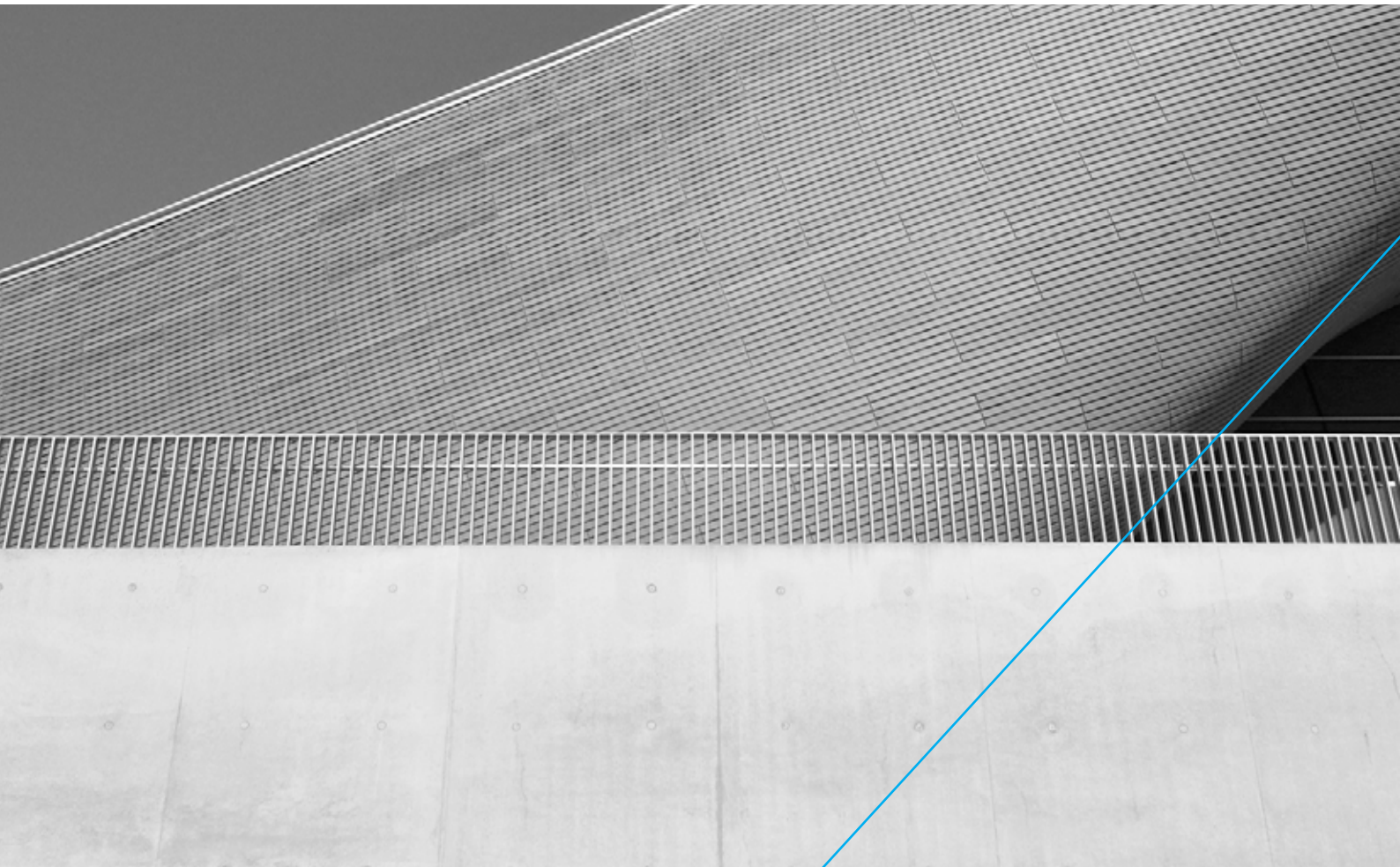
**Andrés Martín Pintor**  
Risks Corporate Director



**Fernando Conledo Lantero**  
Secretary General-Corporate Director of Secretary General and of Legal



**José Manuel Villaverde Parrado**  
Finance Corporate Director



### **Area of activity and responsibilities**

The Steering Committee has the following basic responsibilities:

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

The Committee is made up of the company's senior managers. Nonetheless, other company employees requested by the Chairman of the Committee may attend its meetings with a voice and without a vote.

The Steering Committee meets before the meetings of the Board of Directors and however many times it may be called by its Chariman. In 2017 it met on 18 occasions.



## 04.- Our business model

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# 04

## Our business model

**Securities Services.** Groups all the services of the Securities Services chain, in addition to the comprehensive management of collections and payments, enabling it to offer our clients a global solution.

**Treasury Management.** In the Trading Room public and private fixed-income, equity and derivative transactions are carried out in all the main national and international markets. We work on the investment of resources and our own portfolio and we execute orders on behalf of clients.

**Banking Services.** Cecabank has a wide range of technology and process solutions specialising in payment methods and systems, as well as extensive knowledge on the banking regulation.

## 4.1 Economic and regulatory environment

### 4.1.1 Political risks

During the majority of 2017, the main theme and without a doubt the highest political risk that Spain has faced has been the territorial conflict resulting from the Catalan independence movement.

The tension reached maximum levels after the events that took place on 1 October and the subsequent fleeing of Catalan companies. As a result of the entrenched position of the Govern and the advance of its declaration of the Catalan republic, the Central government initiated the constitutional mechanism, via article 155, to intervene important functions of the Generalitat, including security, finances and some of those reserved to the President of Catalonia.

The elections held on 21 December became the centre of attention, as the result of these elections would determine the future of Catalonia and, in no small extent, Spain's too. The day ended with a map of Catalonia very similar to 2015, when the results of the election showed again a technical tie between the independent and non-independent blocks. Once again, independence did not obtain the majority of votes, but enough power to obtain it in seats.

At an international level, the *Brexit* process experienced little progress in 2017, leaving for the end of the year the most significant decisions. The European Council, in its configuration without the United Kingdom (article 50), supported on 15 December the European Commission's recommendation of confirming that there has been enough progress in the main points of the agreement to give the green light to initiating the conversations regarding the transitional period and the framework of the future relationship.

The 27 countries comprising the European Union after the *Brexit* have also decided where the two European agencies in London will be located following the separation: the European Banking Union in Paris and the European Medicines Agency in Amsterdam.

Despite the initial Euroscepticism produced by the Brexit decision, the European Union has benefited from it throughout the year. A decisive element in this change has been the election of the French President Emmanuel Macron, who is incorporating a forward-looking approach to achieve a deep transformation of the European Union, with the aim of protecting it from any foreign threat and any Europhobe populist movements from within.

The climate has been slightly more uncertain in Germany. Following the weak victory obtained by Angela Merkel and after several weeks of negotiations, the so-called Jamaican coalition (Centre-right, Liberals and Greens) did not prosper, so there are still conversations pending for 2018. The German liberals, breaking with their tradition, have become hostile to a further integration in Europe; therefore, important projects such as the European Monetary Fund or the third pillar of the Banking Union have been paused.

This year has also been marked by the growing political tensions between the **US and North Korea**, as well as the unrest arising from the feasibility of the reforms proposed by Donald Trump. Despite the climate of uncertainty, the stock markets benefited from the announcement of the eagerly awaited tax reform by the US president, which entailed, among other things, a reduction of the corporation tax rate from 35% to 20%.

## 4.1.2 Economic framework and the state of the markets

In general terms, the financial markets have developed favourably throughout the year, and it has been particularly noted for maintaining low levels of volatility, thus building the confidence of new investors.

- **On a global scale.** The year 2017 closed with a very positive balance sheet for the world's economy, due to an **acceleration of its growth rate**, which has been experienced by the advanced and emerging economies.

The improvement of business has been supported by the reinforcement of world trade, and it has taken place in a context of accommodative monetary policies, favourable financial terms and a limited rise of inflation, which remains below the targets set by the central banks.

- **Eurozone.** The upward revision of the growth predictions for the main geographical areas have also extended significantly to the Eurozone, which ended the year with a **growth of 2.5%**, despite forecasts at the beginning of the year setting it at 1.3%-1.4%. In addition, the pace of expansion is more homogeneous among the countries composing the region.
- **Spain.** This further dynamism has also spread to the Spanish economy, and it ended the year with an annual **growth of 3.1%**, mainly due to the increase of the domestic demand, but also with a positive contribution of the foreign demand, although lower than the previous years' contribution. The forecast for the upcoming years is that the expansive cycle will continue, but with a slight deceleration of the rate of progress.

The solid economic growth has been a source of stability for the financial markets in light of a series of episodes of greater political risk, such as the tensions originated by North Korea, the difficulties encountered in the progress of Brexit negotiations or the Catalan pro-independence conflict. On the other hand, its evolution is strongly conditioned by the monetary policy decisions made by the main central banks: the maintenance of the ECB's expansionary stance, although it has initiated its normalisation process with the reduction of debt purchase, and the gradually more restrictive stance of the Fed by initiating the reduction of its balance and three increases of 0.25 p.p. of the intervention rate up to 1.50%.

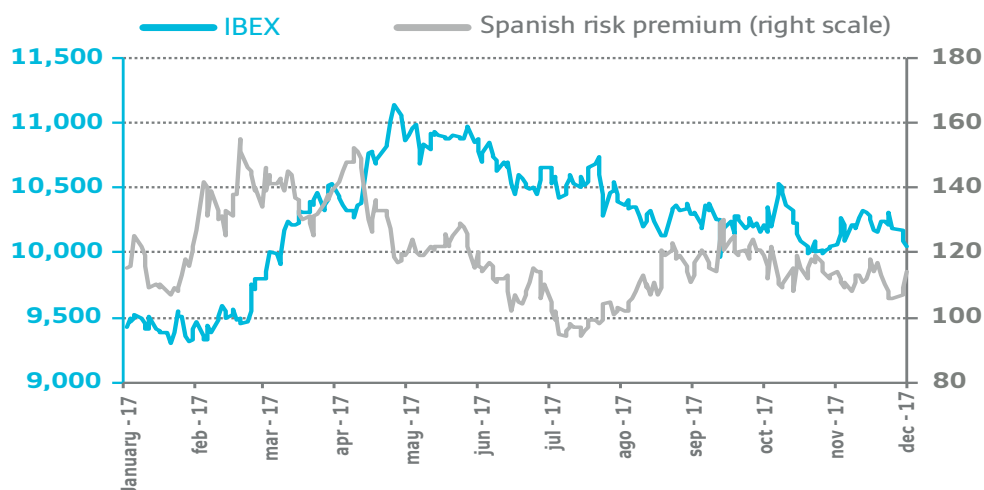


## EVOLUTION OF THE MARKETS

With regard to the behaviour of the stock markets, in general terms the main reference indices have accumulated **positive returns** in 2017, especially those of the US stock exchange, which have reached all-time highs thanks to the approval of Donald Trump’s tax reform and the positive macroeconomic and business figures. In this same line, the main index of the Tokyo Stock Exchange, the Nikkei, accumulates a revaluation of 19%, after reaching levels not witnessed since 1991, as a result of the re-election of the Prime Minister, Shinzo Abe, and the economy’s positive progress. Although the revaluation of the main indices in Europe has not reached the levels reached in the US or Japan, significant gains have also been accumulated in some indices, such as the Dax in Frankfurt, 12.5%, or the Cac in Paris (9.3%). The revaluation of the Ibex35 in 2017 has been more modest, 7.4%, although it is slightly higher than that registered by the Euro Stoxx 50 of 6.5%.

With regard to the Ibex35, the year was marked by two very differentiated phases: an upward phase which reached accumulated returns close to 20% in May, and a downward phase initiated after the crisis of Banco Popular and then maintained by the political uncertainty generated in Catalonia.

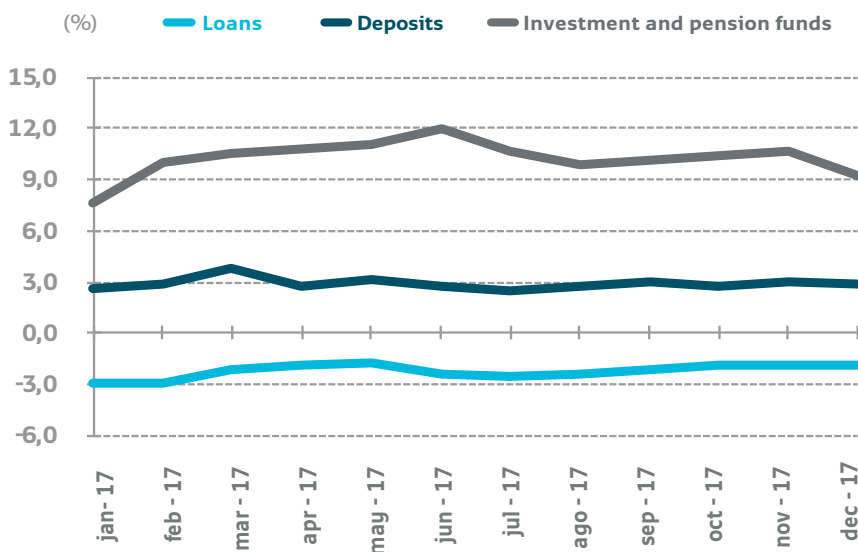
In the fixed-income markets stability has been the dominant note. In the Eurozone, the activity has also been conditioned by the **ECB’s** purchase of public and corporate debt, which has maintained the issuing interest rates at historically low levels. The Spanish 10-year bond return has remained between 1.3% and 1.9%, and the Spanish risk premium has reached 114 b.p at year-end.



## BANKING BUSINESS DEVELOPMENTS

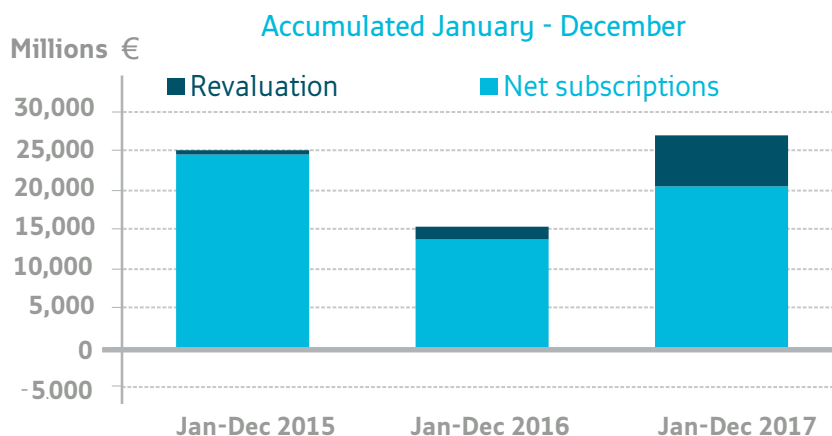
The favourable macroeconomic and financial scenario has had an effect on the improvement of the financial position of homes and enterprises, which however has still not been reflected in the positive rates of credit growth. Thus, in December 2017 the private sector’s credit balance continued to drop 2%, albeit in a more moderate pace when compared to the same period of the previous year (-2.9%) due to the advance of the new credit granted to the private sector. With regard to new transactions, there is considerable dynamism in the financing granted to homes, granted both to housing and consumption, with annual growth rates of 17% and 18% year-on-year, respectively.

Due to the interest rates being at all-time lows, the return offered on retail deposits has continued to drop; however, these have continued rising by 2.9% year-on-year in December 2017, as a result of the lack of alternative products with the same risk profile. Just like in previous years, the low return has caused a transfer of term deposits towards sight deposits, in which the entire growth is concentrated.



In turn, the positive development in the markets has favoured the evolution of investment and pension funds, especially in the first half-year, which registered a steady growth supported by the good performance of the Spanish stock exchange, and they complete the year with an aggregate growth of 11.7% of investment funds and 4% of pension funds.

With regard to investment funds, the year-end registered an all-time high in the volume of assets, reaching 262,847 million euros in May 2017. The increase of this volume by 27,429 million euros has been the largest in the last two years thanks to the good performance of net subscriptions, which rose by 78%, and the higher revaluations supported by the positive outturn registered in the financial markets. In terms of categories of funds, the interest of shareholders throughout the year has concentrated on international equity funds and mixed equity funds. The accumulated average yield in the whole year is of 2.64%.



## 4.1.3 Regulatory Agenda

### Main events in 2017



#### National

**Royal Decree-Law 1/2017**, of 20 January, on urgent measures to protect consumers regarding floor clauses.

**Royal Decree-Law 11/2017**, of 23 June, on urgent measures in financial matters.

**Royal Decree 536/2017**, of 26 May, which creates and regulates the monitoring, control and evaluation commission established by Royal Decree-Law 1/2017, of 20 January, on urgent measures to protect consumers regarding floor clauses, and which amends article 6 of Royal Decree 877/2015, of 2 October, which develops Act 26/2013, of 27 December, on savings banks and banking foundations.

**Circular 1/2007**, of 26 April, of the Comisión Nacional del Mercado de Valores (The Spanish National Stock Exchange Commission), regarding liquidity contracts.

**Royal Decree 827/2017**, of 1 September, amending Royal Decree 878/2015 of 2 October, on compensation, settlement and registration of marketable securities represented by book entries, on the legal regime of central securities depositories and central counterparties and on the transparency requirements of securities issuers admitted for trading on an official secondary market.

**Banco de España Circular 1/2017**, of 30 June, modifying Circular 1/2013, of 24 May, on the Central Risk Information Database.

**Act 7/2017**, of 2 November, incorporating into the Spanish legal system Directive 2013/11/EU of the European Parliament and the Council, of 21 May 2013, on the alternative dispute resolution for consumer disputes.

**Royal Decree-Law 18/2017**, of 24 November, which modifies the Commercial Code, the revised text of the Capital Companies Act approved by Royal Decree Legislative 1/2010, of July 2, and Act 22/2015, of July 20, on Audit of Accounts, regarding non-financial information and diversity.

**Royal Decree-Law 19/2017**, of 24 November, on basic payment accounts, account switching and comparability of payment account fees.

**Royal Decree-Law 21/2017**, of 29 December, on urgent measures to adapt Spanish law to European Union regulations on the securities market.

**Banco de España Circular 3/2017**, of 24 October, amending Circular 2/2014, of 31 January.

**Banco de España Circular 4/2017**, of 27 November, on public and confidential financial reporting and financial statement formats.

**CNMV Circular 2/2017**, of 25 October, amending CNMV Circular 2/2011, of 9 June, on information on foreign collective investment undertakings registered with the CNMV.

**CNMV Circular 3/2017**, of 29 November, on disclosure obligations of Investment Firms through the website in matters of corporate governance and remuneration policy, which amends CNMV Circular 7/2008, of 26 November, on accounting standards, annual accounts and confidential information statements of Investment Firms, Collective Investment Undertakings Management Companies and Management Companies of Venture Capital Entities.

**Banco de España** Guideline related to the Capital Self-Assessment Process (PAC Guide) and Liquidity Self-Assessment Process (PAL Guide).

#### International

Q1

Q2

**Regulation (EU) 2017/1129** of the European Parliament and of the Council, of 14 June 2017, on the prospectus to be published when securities are offered to the public or admitted to a regulated market and which repeals Directive 2003/71/EC.

**Regulation (EU) 2017/1131** of the European Parliament and of the Council of 14 June 2017 on money market funds

Q3

Q4

**Regulation (EU) 2017/2401** of the European Parliament and of the Council, of 12 December 2017, amending Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms.

**Regulation (EU) 2017/2402** of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No. 1060/2009 and (EU) No. 648/2012.

**Regulation (EU) 2017/2395** of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No. 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State.

**Regulation (EU) 2017/1991** of the European Parliament and of the Council of 25 October 2017 amending Regulation (EU) No. 345/2013 on European venture capital funds and Regulation (EU) No. 346/2013 on European social entrepreneurship funds.

**Directive (EU) 2017/2399** of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy.

## 4.2 Lines of business

### Securities Services



It groups all the services of the Securities Services chain, such as securities depository, custody and settlement services and UCITs and pension funds depository services. In addition, we provide a comprehensive management of collections and payments, enabling us to offer our clients a global solution.

- 1. FUND DEPOSITARY
- 2. SECURITIES CUSTODY AND SETTLEMENT

### Treasury Management



In the Trading Room public and private fixed-income, equity and derivative transactions are carried out in all the main national and international markets. We work on the investment of resources and our own portfolio and we execute orders on behalf of clients.

- 1. TRADING ROOM
- 2. EXCUCTION OF EQUITY
- 3. CORPORATE FINANCES AND DCM
- 4. BANKNOTES

### Banking Services



Cecabank has a wide range of technology and process solutions specialising in payment methods and systems, as well as extensive knowledge on the banking regulation.

- 1. PAYMENT METHODS
- 2. BUSINESS INTELLIGENCE AND CHANNELS
- 3. DISCOUNTING, CLEARING AND PAYMENTS SYSTEMS
- 4. TREASURY MANAGEMENT AND RISK SUPPORT
- 5. FINANCIAL REPORTING
- 6. REGULATORY CONSULTANCY
- 7. INTERNATIONAL BUSINESS
- 8. BANKING TRAINING SCHOOL
- 9. CURRENCY EXCHANGE OFFICE

#### 4.2.1 Securities Services

Cecabank is at a significant process of digital transformation of its **Securities Services** business, with the aim of strengthening its value chain, profiting from the opportunities presented in the new environment. Cecabank is currently working with various companies to create ecosystems in which each stakeholder contributes a differentiating factor and collaborates with the rest to achieve streamlined and modern solutions, adapted to suit an increasingly demanding end customer who, in turn, wants a different way of accessing information.

In 2017 Cecabank organised for the fourth consecutive year the Securities Services Conference under the name “The Spanish financial system, towards Target 2-Securities”, consolidating it as the main Spanish post-trading forum. One hundred and ninety institutions and industry representatives took part in the event, including the CNMV, the Banco de España and the ECB. The event focused on analysing the entry of the Spanish financial system into **Target 2 Securities (TS2)**.



Another new development in 2017 was the launching of the **Comprehensive Securities Solution**, a new service that meets the requirements established by the marketing of assets on the internet. Comprehensive Securities Solution was presented during the “MIFID II as a boost to digital transformation in asset distribution” Conference, where the extension of this regulation was highlighted.

### ■ Excellence in our services

The Depositary and Custody services provided is AENOR UNE - IN ISO 9001 certified for quality.



In addition, Cecabank has been recognised as the **best custodian bank in Spain** by the prestigious European publication **Global Banking & Finance Review**. The award recognises the excellence of customer service, leadership in securities services and the solvency of the bank, one of the highest in the European Union.



## cecabank

### 2017 Best Custodian Bank in Spain

Global Banking & Finance Review

Cecabank continues one more year as the first national independent depositary for collective investment undertakings and pension funds.

Deposited assets over

**108,000**  
million

Shared by

**959**  
UCITs - PFs

Managed by

**27**  
companies

### a) FUND DEPOSITARY

Cecabank offers depositary services for collective investment undertakings (funds and SICAVs) and pension funds (personal, partner, and occupational pension schemes).

During the financial year 2017 assets exceeded 108,000 million euros deposited, corresponding to the rise of assets in Collective Investment Undertakings and Pension Funds previously deposited and the incorporation of new managing entities as clients of the depositary business.

The main milestones of 2017 have been:

- The incorporation of the independent managing entity Gesprofit, entrusting Cecabank with 3 funds with deposited assets exceeding 300 million euros, and the self-managed joint venture SeedRocket with an equity exceeding 15 million euros.
- The agreement reached to extend CaixaBank's depositary of funds for another 10 years.
- The agreement reached to be the depositary of Cajamar Group's funds, which exceeds 2,000 million euros of managed assets.



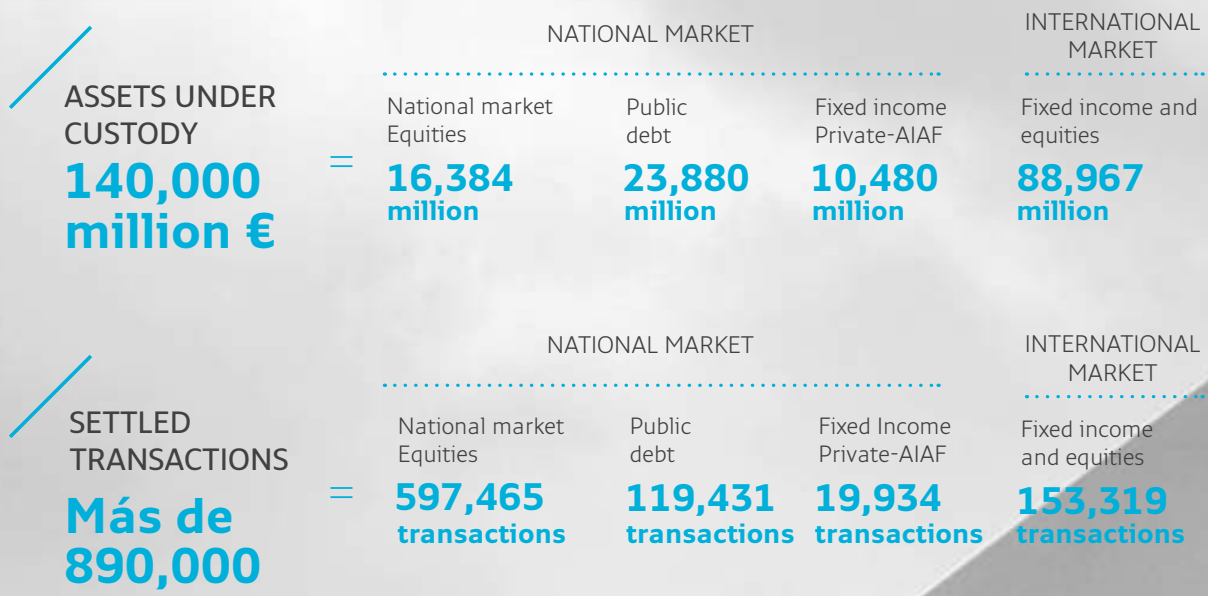
**b) SECURITIES CUSTODY AND SETTLEMENT**

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

With the incorporation of the Spanish market to the T2S, Cecabank has expanded the range of services it offers to its clients, providing them with access to the most advanced functionalities allowed by the European settlement platform T2S, individual accounts, access to electronic pledges and auto-collateralisation. All of this without clients having to implement any significant developments to access the new environment.

The second phase of the Reform (fixed income), together with the incorporation of the Spanish market to the T2S, has marked the year 2017. The main milestones of this year have been:

- The incorporation to the T2S of international markets included in the fourth and five wave of migration
- The incorporation to the T2S: the product catalogue offered by Cecabank to its clients is expanded
- The adaptation to the new regulatory requirements of MiFID II
- The incorporation in the Europe LCH London chamber as a general clearing member in the segment of equities, with the purpose of offering new services to Securities Firms and Agencies



## 4.2.2 TREASURY MANAGEMENT

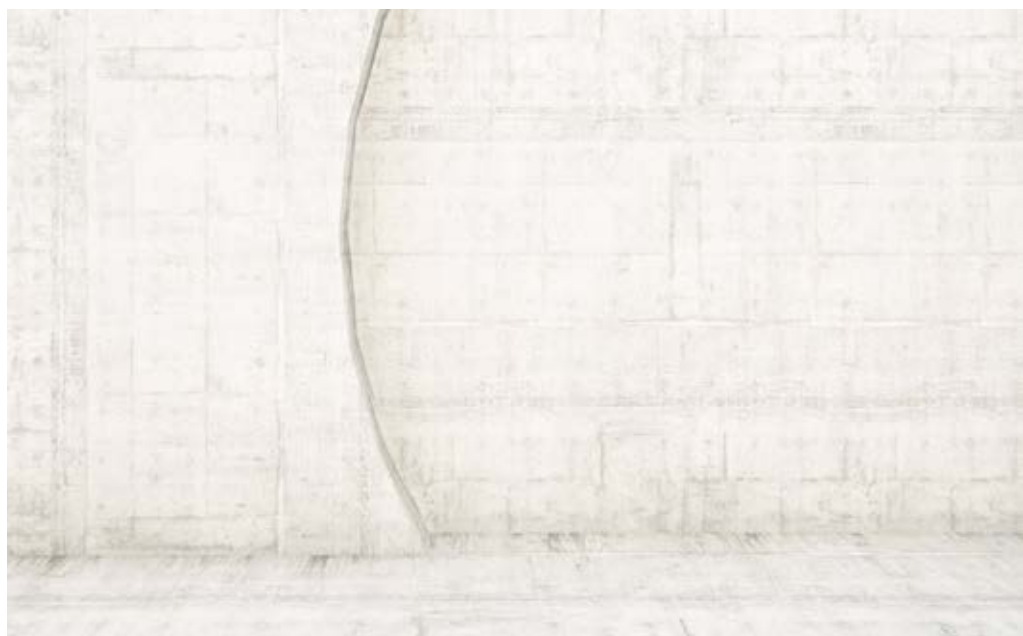


### TRADING ROOM

Our Trading Room operates with its own portfolio and on behalf of its clients in all the main national and international markets for fixed-income (public and private), currencies, equities and derivatives. These transactions are carried out according to our **guidelines, which guarantee** a high degree of both **liquidity** and **solvency**.

In addition Cecabank is the Spanish Treasury Public Debt market maker, participating actively in tender processes and providing the liquidity of the secondary market, not only in sales/purchases in cash but also in financing on the repo market.

Long-term liquidity ratio: 261%



Cecabank is a direct member of the Main Central Clearing Houses: Meffrepo, LCH London, LCH Paris and Eurex.

During the 2017 fiscal year:

- We have comprehensively optimised the institution's liquidity by analysing all the liabilities and renegotiating conditions with many depositaries, with the aim of adjusting them to the current market's characteristics.
- We have continued diversifying our clients according to their type, with the number of and income from non-traditional clients growing.
- We have increased the brokerage business, which provides further stability and recurrent revenues and commissions.
- We have consolidated the solvency perception that the market, counterparties and other economic agents have of Cecabank, and this is represented in the stability of the ratings provided by the rating agencies, which have maintained the levels of Cecabank following the rises in recent years. This has positioned the institution at the forefront of Spanish banks.
- We have consolidated the development of electronic contracting platforms that give service to clients, in addition to our own SICE platform. Cecabank has presence as a price provider at other multi-contributors.
- During 2017, Cecabank and another Spanish entity have been the only lenders of last resort for BME Clearing. During this lifetime of this activity, Cecabank has helped reduce the number of equity write-offs collaborating with the correct functioning of the market from the reform of the equity segment in May 2016 to the complete entry in Target 2 Securities in September 2017.
- Cecabank has been appointed by BME Clearing as a provider of securities to repurchase write-offs in 2018.



## CORPORATE FINANCES

Corporate finances' activity is closely linked to the achievement and monitoring of Cecabank's strategic plans, providing them support by assessing, managing and negotiating the takeover of different businesses, mainly Depositaries.

Throughout 2017, among the activities carried out particularly stands out the **awarding of the contract 2017/2018 FFEELL – ICO – MINHAP** to formalise public loans in favour of entities. These operations have generated 99 loans for the same number of city halls for an amount of 401 million euros.

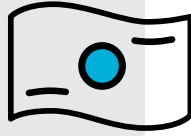
## DEBT CAPITAL MARKETS (DCM)

Cecabank's treasury management **has begun during the year of DCM activity** with the aim of making the most of the entity's good reputation in the market and of the experience of the Room's traders in the credit and fixed-income markets. During the year, using Cecabank's client base, we have helped several entities enter the market for funding. This activity has also contributed to extending the relationship with the Corporates sector and the public and local authorities.

## EXECUTION OF EQUITIES

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

In 2017 the equity execution desk **initiated its path as a direct member of BME in the Spanish stock exchange**. This journey was initiated executing transactions for entities whose securities are held in Cecabank, which are provided a complete execution service in the market, and to others whose securities are held in other entities. The desk was conceived with the aim of providing service to national and international institutional clients that seek a cost-efficient execution provided by an entity with decades of experience in the markets and in securities settlement. It has also taken advantage of the coming into force of the MiFID II, so from the moment of its inception it will be adjusted to all the regulatory requirements.



## BANKNOTES

We have provided foreign currency services to financial institutions for over 30 years

### 5. BANKNOTES

**Wholesale market leader**

in Spain for foreign banknotes

PURCHASE AND SALE OF FOREIGN BANKNOTES

**+2,500**  
daily transactions

BANK BRANCHES

**+18,000**  
dealt by Cecabank

Cecabank is the **wholesale market leader of foreign banknotes in Spain** and it provides services to almost all the country's financial institutions. Cecabank has a wealth of experience in securities logistics and transportation, at both a national and international level. Our logistics structure and economies of scale gives clients a high quality, flexible service, tailored to each client's individual needs.

Throughout 2015 Cecabank received daily more than 2,100 foreign banknote sales transactions, taking charge of the entire transport, handling and insurance. Our clients have total flexibility to request any service level, and are even able to order withdrawals and deliveries from Cecabank directly at its network of offices, with the consequent cost saving and improvement in the quality of service. Over 18,000 bank branches are currently served directly by Cecabank in this way.



780 million card transactions processed in 2017

More than 10 million cards

### 4.2.3 BANKING SERVICES

#### Payment methods

Cecabank provides its clients a **comprehensive payment method medium**, with access to multiple networks and support across all stages of the value chain:

- Connectivity with multiple networks, exchange and settlement of transactions in our additional capacity as a bank
- Business intelligence tools applied to payment methods
- Comprehensive management solutions for purchasing, issuing, and e-commerce
- Fraud prevention and detection using specific tools
- Mobile solutions: payments with mobile phone (HCE, contactless), m-pos and POS-PC solutions.
- Loyalty schemes for businesses
- Specialised IT consultancy

In 2017 a project for interconnecting the Ealia immediate mobile payment solution and other immediate payment solutions and apps existing in European countries and Latin America was developed thanks to our active membership in the Latin American Payment Methods Networks (ATEFI). As a result, we are growing in the provision of higher added value to user-clients of a product that is already an innovation: instantly sending money from your mobile phone.

As in previous years, we continue to maintain excellent results in the fight against fraud. Again the institutions in the EURO 6000 System are the Spanish leaders in terms of the lowest rates of fraud in transactions made with cards thanks to the efficiency of their staff, who are supported by the Espia system operated by Cecabank.

More than  
160,000  
prospective  
businesses

Daily average  
amounts settled:  
100 million euros

Availability of  
the systems:  
99.9999%

Once again, VISA and MasterCard have recognised in their official websites Cecabank's full compliance with the security requirements established in the PCI DSS standard. This compliance has been verified, in accordance with the standards and procedures of the PCI Security Standards Council, by an external auditor certified by the aforementioned organisation to conduct the corresponding auditing procedures.

Similarly, work has been carried out on new models of support services in the development of the payment methods business. Among these, the development of the DCC service is worth a mention, by means of which Cecabank helps entities maximise the return of the online currency conversion service offered online. This service achieves an improved acceptance rate and further currency hedging by using a smart online price calculation engine for each currency.

In this vein, with the market moving towards mobile payments, we are offering entities our own HCE mobile payments solution, as well as a module for the Masterpass service and connections with the main mobile payment solutions made available to Apple, Samsung or Android. This service is offered in two modalities:

- integrated in a multipurpose payment app developed by Cecabank (Ealia infrastructure), and fully customisable for each entity
- independently, such as embeddable modules or components for the company's own app

Our commitment is to keep searching the market and developing solutions that bring value to our client institutions and help each one of them to grow.

Number of transactions on the online banking platform:  
989,989,246

Number of electronic invoices processed by Cecabank's electronic billing platform:  
4,473,928

### Business intelligence and channels

From Interactive Services, we offer solutions for online channels, value processes that revolve around payments and services related to business intelligence and data analysis.

In the field of **online banking**, over the year we have developed new online banking developments, especially in the area of mobility, for three new banks -to one of which we have integrated it into a comprehensive hosting solution for its core banking. We have also worked in providing entities with an api-fication platform that complies with PSD2 regulations as well as other added-value accesses.

With regard to electronic invoicing, throughout 2017 we expounded on the development of the solution and its adaptation to the facturae format 3.2.2. A new bank has been incorporated and we are working on collaborating with the invoicing Hub project FACe B2B for the private sector.





Transactions processed by the payment gateway (virtual POS) owned by Cecabank: 11,282,096

Number of SMS sent: 26,418,250

Number of Bizum transactions processed by Cecabank: 1,042,777

With regard to payments, we have continued with the implementation of new payment scenarios in the Ealia payments platform: HCE mobile payment in businesses, with configurable options; Masterpass; and Virtual Cards -already available in several banks-, integrating it in a same user experience of P2P payments. In addition, the development of new functionalities for payments against accounts has continued under the brand Bizum, such as the payments to NGOs or payments to businesses (C2eR). Functionalities have been developed for the client involving the management of payment data, with the aim of helping its financial management.

Progress has also been made in data analysis, with more entities enjoying new applications based on analytics, datamining and big data technology.

Furthermore, the required connectivity has been developed so Cecabank can represent the entities in the Basic Immediate Transfer Service, an SNCE - 023 sub-system by Iberpay in which Cecabank is already certified. The immediate connection of at least three banks has been planned in this environment under the full representation of Cecabank. In addition, other entities will participate in transactions within Bizum's environment.

The certifications we have received are ingrained in our culture of continuous improvement and service quality

## Key details

December 2017

Cross-border exchange of cheques / Currency Exchange

**111,791**  
cheques processed

SWIFT messages exchanged

**1,379,397**  
transactions processed with Cecabank BIC

**1,138,329**  
transaction processed with other BICs

Non-SEPA Fund Transfers (TARGET / EBA)

**204,263**  
transaction processed

**1,250,293**  
nominal value (in millions of euros)

SEPA transactions exchange (EBA and SNCE)

**650,915,895**  
transaction processed

**431,769**  
nominal value (in millions of euros)

## Discounting, clearing and payment systems

Cecabank provides services to credit institutions and corporate clients for the integral management of bank collections and payments, discounting transactions, reverse factoring of payments and technical coverage of connectivity to SWIFT.

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

In 2017 we adapted to the new versions of SEPA payment "Rulebooks", in transfers and direct debits, with both clients and represented entities. In addition, the validation procedures for the reception of files related to the traditional SNCE exchanged with the represented entities has been improved.

One of the major milestones of the year has been the launching of an online platform to supervise and control the Exchange of Payments for entities represented in the SNCE. In a first phase SEPA transfers have been included, and in the next year SDD interchange and cheques will be added.

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

Exchange of traditional transactions in the scope of the SNCE

**18,305,418**  
transactions processed

**104,916**  
nominal value  
(in millions of euros)

Notes entering

**3,615,752**  
notes

**6,871**  
nominal value  
(in millions of euros)

Notes deposited

**228,874**  
notes

**674**  
nominal value  
(in millions of euros)

Outstanding/Live guarantees granted

**10**  
Transactions processed

**15,30**  
nominal value  
(in millions of euros)

AENOR UNE EN ISO 9001 quality certification for exchange, clearing and settlement of collection and payment transaction services (transfers, direct debits, fund transfers and advance credit payments), as well as the UNE-ISO/IEC 27001 certification for the information security management system for SEPA operations. These certifications are evidence of the culture of continuous service and quality improvement which is at the core of the Cecabank's Strategic Plan.

At the end of the year, support has been provided to a new SNCE subsystem to settle immediate international SWIFT payments.

During 2017, two new entities have been added as clients in the representation service in the SNCE. In addition, two new entities have been included in services for channelling international SWIFT payments. In 2017 nine entities have been included in the Swift connectivity security programme of the Cecabank platform.



In the field of payment and collection services to all types of entities, a new tool has been integrated into the payment procedure for the prevention of money laundering and the financing of terrorism, which has allowed applying the best practices in full compliance with the current regulations. Cecabank has maintained the Quality Management System certificate in conformance with the UNE ISO 9001 Quality Management Standard and ISO 27001, which confirms the company's outstanding position in providing payment and collection services to credit entities and corporate clients, based on a model geared towards constant innovation, maximum efficiency and generating added value.

Two competitive advantages: process excellence and the flexibility to incorporate regulatory and market changes

## MAIN DETAILS 2017

TREASURY  
MANAGEMENT AND RISK  
PLATFORM

**23**

financial institutions, public administrations, Collective Investment Scheme Management Companies and corporates.

MANAGES COLLATERAL  
CONTRACTS OF

**10**

companies

## Treasury management and risk support

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

- Front and Back Office Treasury Management
- Monitoring of market and counterparty risk
- Operational Risk Management
- Support for Banknotes activity

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

The services provided by the Treasury Management and Risk Services Centre enable all kinds of financial institutions, public administrations Collective Investment Scheme Management Companies and Corporates to access standard IT applications specialising in the different activities of a Trading Room and Risks, developed by leading suppliers in the national and international markets.

Throughout 2017 the scope of the services provided has been broadened in terms of both the number of users and the range of services provided. With the aim of responding to requests for regulatory information from the entities that use the Treasury Management and Risk Platform, the MiFID II service has been included, which provides technological means to comply with the requirements of this regulation in the different scopes of action: *Transaction Reporting, Transparency, Record Keeping and Best Execution.*



## Financial Reporting

The **Comprehensive Reporting Service** has experienced a very favourable evolution with the *Cirbe-Anacredit* module and Pyramid Analysis. It also develops technology cooperation projects and the **blockchain** consortium.

## Regulatory Consultancy

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

- Access to the financial regulations database (for subscribed users) that includes daily updated versions of all the regulations applicable to Spanish credit institutions and Spanish, European Union and international regulation projects, as well as interbank regulation (interbank procedures and standards, reports, etc.) and other relevant corporate information.
- Daily service on new developments via email of alerts and notifications about the latest developments in national and international regulations, classified as either published regulations or non-regulatory projects.
- Monthly publication of reports on the impacts of the main published standards and projects.
- Publication of reports on particularly important regulations that affect institutions. These reports are compiled at the moment the standard is published, prior to the publication of the monthly overview.



## Regular publications

Regulatory outlook, monthly editions, and specials.

## Database of financial and interbank regulations

- Advice and enquiries, providing entities a permanent, global service related to all the regulatory obligations to which they may be subject as a result of the performance of its activity. Advice, at the request of the entity, in the following fields: retail banking, solvency, corporate governance, regulatory compliance, supervision, risks, securities market and payments.

With regard to projects, the following have been carried out throughout 2017:

- A project spanning several years to identify the impacts and measures banks need to take to fulfil the new requirements related to investor protection, transparency, and communication of operations, stemming from the MiFID II/MiFIR and PRIIPS regulations for related retail investment products and insurance based investment products.
- ICT Risk project, definition of a reference framework to adapt the new SREP supervisory framework in matters of technological risks.
- GDPR project, which supports the entities in the process of adapting and implementing the requirements of the General Data Protection Regulation (GDPR).





## International Business

Cecabank has **presence in the main European financial markets**, providing our entity an international dimension and promoting the services offered by the entity abroad.

### Overseas Network of Offices

Our overseas network provides us presence in France, Benelux, Germany, Switzerland, Portugal and the United Kingdom, operating through two Representative offices: **Paris and Frankfurt**, and two branches: **London and Lisbon**.

During the year 2017, we have expanded our international presence with the opening of a **branch in Portugal**, thus consolidating our stance as a regional provider in Spain and Portugal.

With respect to the branch in London, this year we have increased the number of institutions that provide correspondent banking services in the United Kingdom. New clients that operate regularly for the Treasury Management business have been acquired, and the volume of payments processed between Spain and the United Kingdom has been maintained.

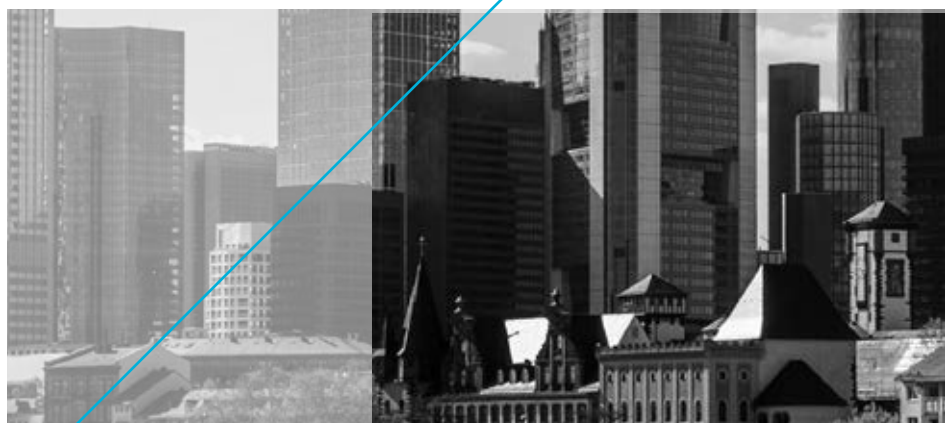
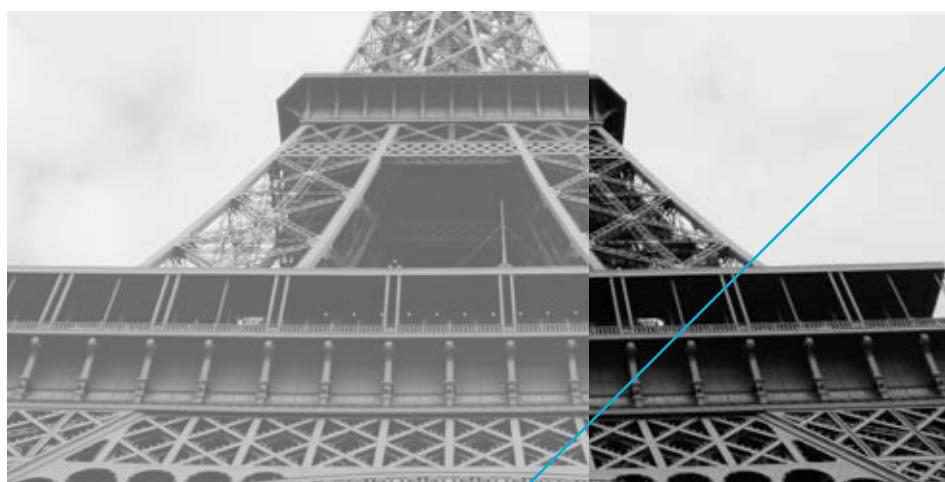
From this branch, an extensive detailed commercial activity has been carried out to establish new professional partnerships. Among the projects, particularly stands out the study on the feasibility of establishing ourselves as a local operator of banknotes and payments and a local FX broker for Money Service entities, and we expect the activity to begin in early 2018.

Our branches in Paris and Frankfurt have worked towards consolidating the activity of delivering remittances and pensions towards Spain with their current partners, increasing the processed volume by 15% with respect to the previous year. As a result, market shares of over 50% of the total volume of pensions sent to our country have been achieved.

In addition, the assets managed in Luxembourg's SICAVs have increased by 20%.

During this financial year, from Paris and Frankfurt we have initiated an ambitious commercial plan with the objective of participating in the achievement of the entity's 2017-2020 Strategic Plan. We have also participated in several renowned forums and conferences with the aim of providing Cecabank international visibility.

Our overseas network has a support team in Madrid which deals with the operational handling of payment methods in foreign trade and international guarantees, pension agreements, and immigrant remittances. In addition it has a Customer Service specialising in resolving problems and providing advice to pensioners, beneficiary entities in Spain, senders' correspondent banks, and payer entities.



## Correspondent's Network

Cecabank has an up-to-date and extensive **worldwide network of correspondents**, essential for carrying out all the transactions and payments that provide the services we offer at Cecabank the coverage it needs to give it great international projection.

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

This year, we have also reached agreements to increase the currencies in which we provide service, and we have expanded to more countries the signing of correspondent banking agreements.

## Banking Training School

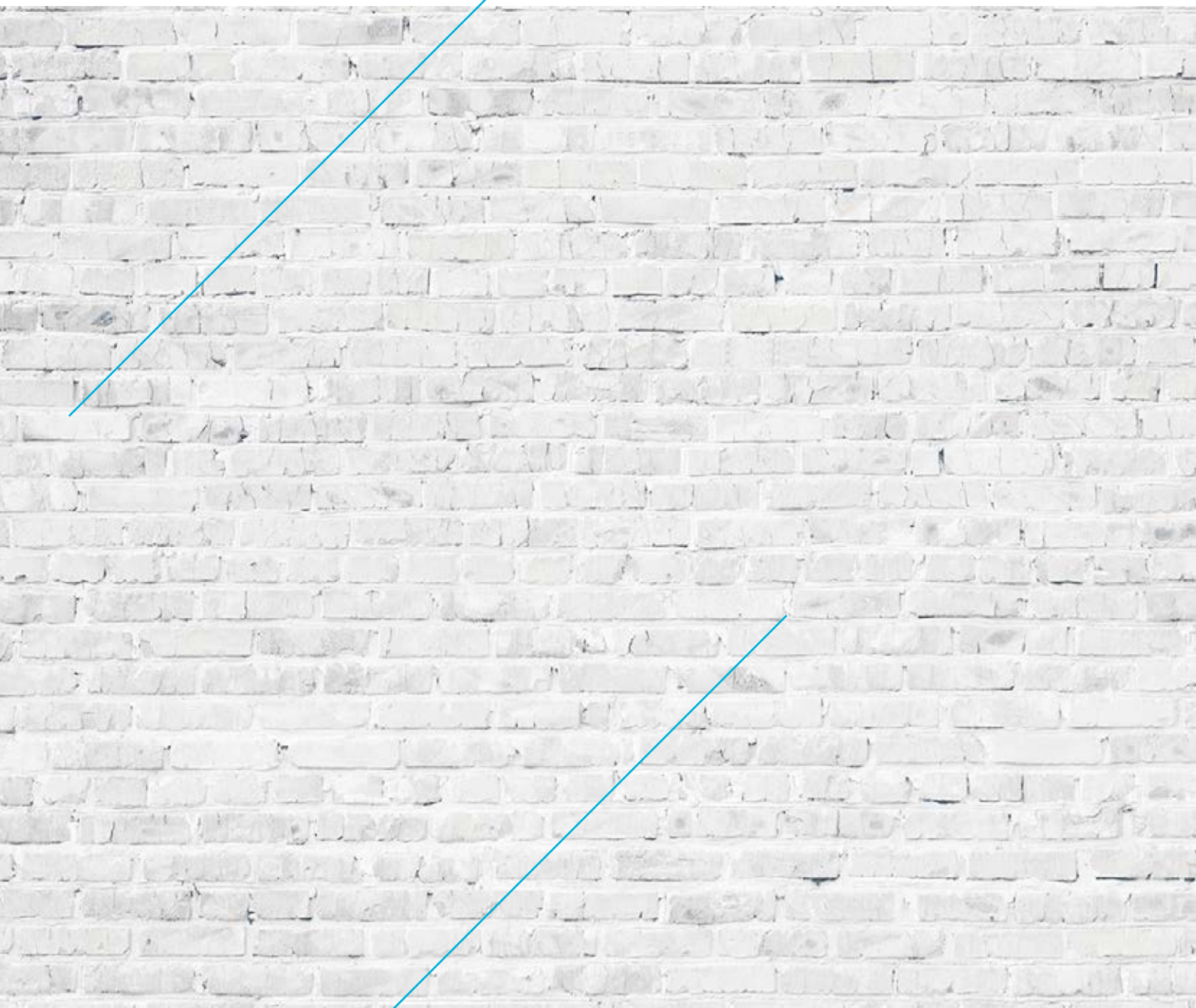
The Banking Training School has by far exceeded the objectives set as a result of the courses and accreditation of MiFID II financial adviser, thus progressing in the diversification of clients.



## Currency Exchange Office

Cecabank's Exchange Office buys and sells foreign banknotes to the public. It has **40 currencies immediately available** in different denominations and amounts, which allows us to provide top quality banknotes at competitive prices and ample public opening hours.







## 05.- Financial information

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<b>5.4 Ratings</b>	103

# 05

## Financial information

Cecabank's profit is maintained at 73 million euros in 2017, demonstrating the business model's ability to generate recurrent earnings.

## 5.1 Results

Cecabank S.A. Income statements corresponding to the years ended 31 December 2017 and 2016\* (thousands of euros).

	Income / (Expense)	
	2017	2016*
Interest income (Note 28)	89,641	111,106
Interest costs (Note 29)	(71,242)	(73,133)
Costs for social capital having the nature of a financial liability	-	-
<b>A. NET INTEREST INCOME</b>	<b>18,399</b>	<b>37,973</b>
Dividend income (Note 30)	39,474	33,841
Commission income (Note 31)	136,286	134,269
Commission expenses (Note 32)	(14,894)	(15,405)
Profits or losses for deregistering assets or financial liabilities not measured at fair value		
through profit or loss, net (Note 33)	10,639	16,511
Profits or losses for held-for-trading assets and financial liabilities, net (Note 33)	(33,606)	(38,902)
Profits or losses for assets or financial liabilities measured at fair value		
through profit or loss, net (Note 33)	(18)	(290)
Gains or losses resulting from hedge accounting, net (Note 33)	(4,798)	(4,802)
Exchange differences, net	65,393	51,178
Other operating income (Note 34)	50,758	43,602
Other operating costs (Note 37)	(4,432)	(4,049)
<b>B) GROSS INCOME</b>	<b>263,201</b>	<b>253,926</b>
Administrative expenses	(130,636)	(115,182)
Staff costs (Note 35)	(51,193)	(51,689)
Other administrative expenses (Note 36)	(79,443)	(63,493)
Depreciation and amortisation (Note 39)	(56,834)	(55,588)
Provisions or reversal of provisions (Note 16)	16,909	3,236
Value impairment or reversal of value impairment of financial assets not measured at fair value	7,132	11,064
through profit or loss (Notes 22 and 38)		
Financial assets valued at cost	-	-
Available-for-sale financial assets	302	(3,410)
Loans and receivables	6,830	14,474
Held-to-maturity investments	-	-
<b>C. PROFIT FROM OPERATIONS</b>	<b>99,772</b>	<b>97,456</b>
Impairment value or reversal of impairment value of investments in subsidiaries, joint businesses, or associated companies (Note 11)	-	-
Impairment value or reversal of impairment value of non-financial assets	-	-
Tangible assets	-	-
Intangible assets	-	-
Other	-	-
Profits or losses on deregistering non-financial assets and liabilities, net (Note 12)	2	(12)
<i>Of which: Investments in subsidiaries, joint businesses, and associate companies</i>	-	-
Negative goodwill recognised in the income statement	-	-
Profits or losses from non-current assets or disposable groups of elements classified as held for sale or inadmissible as discontinued activities (Note 10)	8,382	10,894
<b>D. PRE-TAX PROFITS OR LOSSES FROM CONTINUING ACTIVITIES</b>	<b>108,156</b>	<b>108,338</b>
Tax costs or income on profits from continuing operations (Note 20)	(34,938)	(31,991)
<b>E. AFTER-TAX PROFITS OR LOSSES FROM CONTINUING ACTIVITIES</b>	<b>73,218</b>	<b>76,347</b>
After-tax profits or losses from discontinued activities	-	-
<b>F. PROFIT FOR THE YEAR</b>	<b>73,218</b>	<b>76,347</b>

(\*) Presented for comparative purposes only (Note 1.4).  
Notes 1 to 41 and Annexes I and II, included in the attached Report, are an integral part of the income statement as at 31 December 2017.

## 5.2 Activity

Cecabank, S.A. Financial Statements as at 31 December 2017 and 2016\* (thousands of euros).

Asset	2017	2016*
Cash, cash balances in central banks and other demand deposits (Note 5)	2,656,780	2,189,682
Financial assets held for trading (Note 6.1)	2,144,770	2,008,565
Derivatives	1,031,402	1,250,753
Equity instruments	287,482	151,360
Debt instruments	825,886	606,452
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: Loaned or delivered as a guarantee with right of sale or pledge	37,971	11,855
Financial assets measured at fair value through profit or loss (Note 6.2)	256,876	1,066,436
Equity instruments	-	-
Debt instruments	-	-
Loans and advances	256,876	1,066,436
Central banks	-	-
Credit institutions	256,876	898,579
Customers	-	167,857
Memorandum item: Loaned or delivered as a guarantee with right of sale or pledge	69,228	104,405
Financial assets available for sale (Note 7)	1,772,261	3,321,501
Equity instruments	38,716	67,519
Debt instruments	1,733,545	3,253,982
Memorandum item: Loaned or delivered as a guarantee with right of sale or pledge	19,862	74,850
Loans and receivables (Note 8)	2,684,459	1,215,503
Debt instruments	21,731	21,874
Loans and advances	2,662,728	1,193,629
Central banks	-	-
Credit institutions	1,758,369	703,194
Customers	904,359	904,359
Memorandum item: Loaned or delivered as a guarantee with right of sale or pledge	154,343	2,247
Held-to-maturity investments	-	-
Memorandum item: Loaned or delivered as a guarantee with right of sale or pledge	-	-
Derivatives - hedge accounting (Note 9)	1,723	511
Changes in fair value of portfolio elements with interest rate hedging	-	-
Investments in subsidiaries, joint businesses, and associate companies (Note 11)	416	416
Group companies	416	416
Jointly controlled entities	-	-
Associates	-	-
Tangible assets (Note 12)	52,413	53,195
Property, plant and equipment	50,636	51,360
For own use	50,636	51,360
Leased out under an operating lease	-	-
Assigned to welfare projects	-	-
Investment property	1,777	1,835
Of which: Leased out under an operating lease	-	-
Memorandum item: Acquired under financial lease	-	-
Intangible assets	228,864	59,231
Goodwill	-	-
Other intangible assets (Note 13)	228,864	59,231
Tax assets	115,167	124,536
Current tax assets	6,315	172
Deferred tax assets (Note 20)	108,852	124,364
Other assets (Note 14.1)	42,944	34,003
Subsidiaries	-	-
Inventory	-	-
Remaining other assets	42,944	34,003
Non-current assets and disposable groups of elements classified as held for trading (Note 10)	3,787	18,110
<b>Total assets</b>	<b>9,960,460</b>	<b>10,091,689</b>

(\*) Presented for comparative purposes only (Note 1.4).

Notes 1 to 41 and Annexes I and II, included in the attached Report, are an integral part of the balance sheet as at 31 December 2017.

Liabilities	2017	2016*
<b>Held-for-trading financial liabilities (Note 6.1)</b>	<b>1,539,978</b>	<b>1,779,800</b>
Derivatives	1,146,041	1,346,084
Short positions	393,937	433,716
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Debt instruments	-	-
Other financial liabilities	-	-
<b>Financial liabilities designated at fair value through profit or loss (Notes 6.2)</b>	<b>-</b>	<b>185,902</b>
Deposits	-	185,902
Central banks	-	-
Credit institutions	-	38,510
Customers	-	147,392
Debt instruments	-	-
Other financial liabilities	-	-
<i>Memorandum item: subordinated liabilities</i>	-	-
<b>Financial liabilities at amortised cost (Note 15)</b>	<b>7,032,621</b>	<b>6,730,043</b>
Deposits	6,392,278	6,103,405
Central banks	-	-
Credit institutions	857,982	958,553
Customers	5,534,296	5,144,852
Debt instruments	-	-
Other financial liabilities	640,343	626,638
<i>Memorandum item: subordinated liabilities</i>	-	-
<b>Derivatives - accounting of hedges (Note 9)</b>	<b>1,412</b>	<b>3,966</b>
<b>Changes at fair value of the hedged elements of a portfolio with coverage of the risk of interest rates</b>	<b>-</b>	<b>-</b>
<b>Liabilities protected by insurance or reinsurance contracts</b>	<b>-</b>	<b>-</b>
<b>Provisions (Note 16)</b>	<b>151,843</b>	<b>190,034</b>
Pensions and other post-employment defined provision obligations	-	-
Other long-term benefits for employees	63,229	76,166
Procedural matters and procedural tax litigation	14,888	19,663
Commitments and guarantees granted	206	134
Remaining provisions	73,520	94,071
<b>Tax liabilities (Note 20)</b>	<b>26,188</b>	<b>44,956</b>
Current tax liabilities	-	12,033
Deferred tax liabilities	26,188	32,923
<b>Capital repayable on demand</b>	<b>-</b>	<b>-</b>
<b>Other liabilities (Note 14.2)</b>	<b>150,739</b>	<b>137,680</b>
<b>Liabilities included in alienable groups of items that have been classified as held for sale</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>8,902,781</b>	<b>9,072,381</b>

(\*) Presented for comparative purposes only (Note 1.4).

Notes 1 to 41 and Annexes I and II, included in the attached Report, are an integral part of the balance sheet as at 31 December 2017.



Equity	2017	2016*
<b>Own Funds</b>	<b>1,012,621</b>	<b>958,490</b>
Capital	112,257	112,257
Paid-up capital (Note 18)	112,257	112,257
Uncalled non-paid-up capital	-	-
<i>Memorandum item: uncalled capital</i>	-	-
Share premium (Note 18)	615,493	615,493
Equity instruments issued other than capital	-	-
Other elements of equity	-	-
Retained earnings	-	-
Revaluation reserves	-	-
Other reserves (Note 19)	211,653	154,393
Treasury stock	-	-
Profit for the year	73,218	76,347
(-) Interim dividends	-	-
<b>Other accumulated overall result</b>	<b>45,058</b>	<b>60,818</b>
Items that will not be reclassified as results	11,019	9,462
<i>Actuarial profits or losses on defined-benefit pension schemes (Note 17)</i>	11,019	9,462
<i>Non-current assets and disposal group elements classified as held for sale</i>	-	-
<i>Other Valuation Adjustments</i>	-	-
Items that can be reclassified as results	34,039	51,356
<i>Hedges of net investments in foreign operations</i>	-	-
<i>Currency conversion</i>	-	-
<i>Hedging derivatives. Cash flow hedges</i>	-	-
<i>Available-for-sale financial assets (Note 17)</i>	34,039	44,112
<i>Debt instruments</i>	26,740	39,389
<i>Equity instruments</i>	7,299	4,723
<i>Non-current assets and disposal group elements classified as held for sale (Notes 10 and 17)</i>	-	7,244
<b>TOTAL EQUITY</b>	<b>1,057,679</b>	<b>1,019,308</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>9,960,460</b>	<b>10,091,689</b>

MEMORANDUM ITEMS	2017	2016*
Guarantees granted (Note 27.1)	67,214	65,223
Contingent commitments granted (Note 27.3)	624,462	280,446

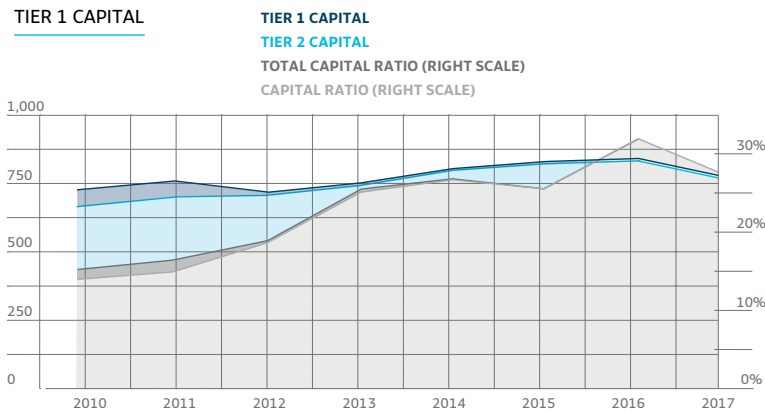
(\*) Presented for comparative purposes only (Note 1.4).

Notes 1 to 41 and Annexes I and II, included in the attached Report, are an integral part of the balance sheet as at 31 December 2017.

## 5.3 Robust capitalisation

At the close of the 2017 financial year, Cecabank's solvency ratio was 27.36%, 99.8% comprising common equity Tier 1 Capital (CET1). The CET1 ratio stood at 27.30%.

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. The year 2017 has been a light drop of the Tier 1 capital, and thus the solvency ratio, due to the purchase and renewal of contracts related to the Securities Services activity.



## 5.4 Ratings

The ratings awarded to Cecabank as at 31 December 2017 by international agencies Fitch Ratings, Moody's and Standard & Poor's, are as follows:

Rating Tier **31 December 2017**

	Short-term	Long-term	Outlook
<b>Moody's</b>	P-2	Baa2	Stable
<b>Fitch Ratings</b>	F-3	BBB-	Stable
<b>Standard &amp; Poor's</b>	A-2	BBB	Positive

The strategic shift and subsequent success of its implementation have been key factors in the revision of different agencies' credit ratings, with the organisation currently holding 3 Investment Grade ratings. Generally speaking, when qualifying our company, agencies highlight the success of the following as positives:

- Comfortable liquidity position
- The company's strategic reorientation
- Conservative risk profile
- Being a service provider to other companies
- Increase in recurring income
- Leading position in Securities Services
- Robust capitalisation





# 06 2017 Annual Accounts

Cecabank, S.A.

Annual Accounts for the financial year ended as of 31 December 2017 and Management Report.

## 06.- Annual Accounts

### **6.1 Cecabank, S.A.**

Individual Annual Accounts,  
management report and audit report  
for the 2017 fiscal year

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

Consolidated Annual Accounts, management report  
and audit report for the 2015 fiscal year