



2018

ANNUAL REPORT

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Caja de Crédito de los Ingenieros Sociedad Cooperativa de Crédito, Caja de Ingenieros, was founded in 1967.
It is registered in the Special Register of the Bank of Spain under number 3,025.
Registered in the Central Cooperatives Register under number 14,651 key 1698-SMT of the Ministry of Employment.
Registered in the Barcelona Company Register, folio 1, volume 21,606, page B-25,121, entry 1.
Caja de Ingenieros is a member of the Deposit Guarantee Fund.
Caja de Ingenieros is a registered Securities Investment Fund Custodian.
Caja de Ingenieros is a registered Pension Fund Deposit Institution.
Caja de Ingenieros is a member of the National Union of Credit Cooperatives (UNACC).
Caja de Ingenieros is a member of AIAF Mercado de Renta Fija SA.
Caja de Ingenieros is a direct participant in TARGET2-Bank of Spain.
Caja de Ingenieros is a participating entity in Iberclear.
Caja de Ingenieros is a partner of the Government of Catalonia Debt Issues programme.
Caja de Ingenieros is a clearing member of MEFFRepo.
Caja de Ingenieros is a member of Spainsif - Spanish Socially Responsible Investment Forum.
Caja de Ingenieros is a member of European DataWarehouse GmbH, the European database for information about securitization.
Caja de Ingenieros is a signatory member of the United Nations Global Compact.

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The Governing Board convenes the Ordinary General Meeting in the first half of the year by means of an announcement published in a widely circulated newspaper within the Entity's area of action. During this Meeting, the following themes are addressed: examination of corporate management, approval of the annual accounts and resolutions on profit distribution or, if applicable, the allocation of losses, as well as establishing the general policy of the Cooperative Credit Society, not to mention any other matter that can be included on the agenda in relation to the operations of the Credit Society.

In the event that it is deemed advisable, the Governing Board may also convene an extraordinary meeting.

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Letter from the Chairman



Dear members,

2018 was a year of complex economic and financial challenges, with strong regulatory pressure, which we overcame with hard work and with a solid structure that led us to achieve better results than those foreseen in our business plan.

Of the objectives established for 2018, which we achieved successfully, I would like to highlight our efforts to ensure the solvency of the Group which has given us leverage to generate value shared with our members, maintaining a capital ratio of 14.24%, much higher than the Spanish financial sector average.

But if there is a word that defines the year just ended it would be commitment, which not only summarizes 2018 but is also the key to our future.

Our European cooperative banking model defines us, as do the solid and firm values which are the foundation of our day-to-day activity, and we are not only building an entity that we hope will be deserving of its members'

trust but also a better future for the society in which we live and work.

Our number of members is continuously increasing; we ended the year having considerably expanded our membership in Spain by 16.83% to reach a total of 187,410 members. This increase also involved a significant effort in terms of investment, in order to offer the best possible service to both new members and those who were already part of our entity.

This growth was mainly due to the satisfaction of our current members, who are our main endorsers. Indeed the Net Promoter Score (NPS) was 56%, the highest in the Spanish banking sector, and 9.5% higher than at the end of 2017.

Among the concepts most valued by Caja de Ingenieros members are the personal attention we provide to our members and our own cooperative model of responsible, transparent and safe banking. These two factors alone account for 41% of the overall score for the best valued aspects by our members.

That is why we want to continue to base our work on our values so that we can maintain the trust of all our members, offering the best personalized service and advice and promoting the Group's digitization to offer an optimal user experience.

I would also like to mention the Caja de Ingenieros Foundation, one of the main vehicles through which we give back to society all that it has given us. Since its creation, more than 400 projects have been carried out through partnerships with universities, professional associations and third sector organizations. We have also allocated 4 million euros to help more than 190,000 people at risk of social and labour market exclusion, to grant scholarships for studies and training to more than 2,300 people, and we have given work to more than 850 entrepreneurs.

We carry out all these efforts in a very conscious way, knowing that the future requires everyone's commitment—people, companies and institutions—in working together with a long-term perspective.

And this is why I would also like to thank all the people that make up this Entity for their perseverance and professionalism to offer the best service to all our members.

Rest assured that at Caja de Ingenieros we will continue to work guided by our values to make us deserving of your trust.



Josep Oriol Sala Arlandis
Chairman

Our European cooperative banking model defines us, as do the solid and firm values which are the foundation of our day-to-day activity, and we are not only building an entity that we hope will be deserving of its members' trust but also a better future for the society in which we live and work.

Letter from the General Manager



Dear members,

2018 marked the tenth anniversary of one of the events with the greatest impact on the financial sector and which was, in large part, the catalyst for its transformation: the collapse of Lehman Brothers. During these ten years, the sector has had to overcome several challenges as a result of the regulatory efforts of the financial authorities, demanding higher financial and capital ratios from financial institutions, as well as a more careful management by banks of credit and liquidity risks on their balance sheets. On the other hand, these challenges have given rise to opportunities such as more robust and demanding governance, as well as stronger transparency policies to the benefit of customers and shareholders.

Apart from these regulatory demands, last year was a complex economic and financial period, largely due to low interest rates or negative interest rates that were aimed at boosting the economy, which, nevertheless, remains in a state of lethargy.

With regard to the financial sector, savings banks in Spain practically disappeared, resulting in there being 80% fewer banks compared to ten years ago, a loss of 30% of jobs in the sector and the disappearance of 40% of bank branches.

This summary puts into perspective the work that Caja de Ingenieros carried out in this period, which we can describe as successful. The Group maintained its firm commitment to a cooperative banking model, which is close to its members and can adapt to the context, ensuring that the Group's financial stability (in other words its solvency, liquidity and profitability) is able to support its capacity to grow the service proposal that it offers for its members.

As a result, ten years on, the Caja de Ingenieros model has consolidated itself and continues to be trusted by a large part of the population, and that is why the new challenges that the Group faces are not only demanding, but also exciting. Growth, digitization and society are the areas in which we invested most of our efforts in 2018, and the result of all this is reflected in the main business indicators.

Over the course of the 2018 financial year, we continued to invest in the digitization of the Group. An example of this is the new website we launched and which is basically another branch of the Entity that allows us to reach all corners of the country and enables us to provide the best service to our members. In fact, the digitization of the Group is so high that 65% of our members are digital. In other words, they use one of the Caja de Ingenieros

digital channels such as **ONLINE** Banking or **MOBILE** Banking. Of note was the increase in downloads of the **MOBILE** banking application by 51%, while digital banking received around 33,000 visits per day.

Last year we also continued to focus on local branches and personalized attention with the opening of new offices in Bilbao, Manresa, Vic and Barcelona, some of them under the AVANT office model.

Moreover, the 2018 financial year results demonstrate the strength of the Caja de Ingenieros Group. We obtained a turnover of 6.190 billion euros, 7.65% higher than the previous year, and a capital ratio (14.24%) and default rate (2.77%) better than the sector average. In addition, as a cooperative entity with a strong commitment to boosting the real economy, we increased lending by 19.06% and we formalized our commitment to complying with the Sustainable Development Goals (SDG) by adhering to the United Nations Global Compact .

Our earnings before taxes and Education and Promotion Fund allocations amounted to 12.8 million euros. This fund is intended for the Group's social projects, mainly channelled through the Caja de Ingenieros Foundation.

Finally, I would like to thank all the people that make up Caja de Ingenieros for their efforts: the management team and the Governing Board for always ensuring that we preserve our way of being and doing, focused on the member and on resolving their needs, and for keeping us aligned with our values; and I would like to thanks all the professionals that make up the Group for their commitment, because without them, nothing we do would be possible.



Joan Cavallé i Miranda
General Manager

The Caja de Ingenieros model has consolidated itself and continues to be trusted by a large part of the population, and that is why the new challenges that the Group faces are not only demanding, but also exciting; growth, digitization and society are the areas in which we invested most of our efforts in 2018.

03

Ten main indicators



Ten main indicators

187,000

Number of members

+16.83% vs. 2017

More than 187,400 members placed their trust in Caja de Ingenieros Group. This is an increase of 16.83% vs. 2017.

56%

NPS

9.5 points higher than in 2017

Caja de Ingenieros obtained a Net Promote Score (NPS), according to STIGA, of 56%, 9.5 points higher than 2017 and well above the sector average, which is 2.5%.

8.34

Satisfaction rate

8.21 in 2017

Increase in the satisfaction rate of our members.

473

Employees

459 in 2017

We have a staff of 473 highly qualified and experienced professionals.

6.76%

ROE

Return on equity (ROE), at the end of 2018, stood at 6.76%.

+7.65%

Turnover

Turnover was €6,190 billion (€5.750 billion in 2017).

14.24%

Capital ratio

Strong position of the Caja de Ingenieros Group in CET1 and capital requirement in line with the European average.

33,000

Digital Banking (daily visits)

51% increase in downloads of the **MOBILE** Banking app vs. 2017.

2.77%

Default rate

Default rate well below the sector average, which stands at 5.8%.

€12.7 M

Profit/Loss for the financial year

Profit for the financial year of €12.7 billion, consolidated profit before taxes and EPF allocations.



An aerial photograph of a dense urban skyline, featuring numerous high-rise buildings. The image is partially obscured by large, semi-transparent blue geometric shapes, including a large triangle on the left and a diagonal band across the bottom right. The text '04 Environment and regulation' is positioned in the upper right corner, set against the white background.

04

Environment and regulation

Economic and financial environment

4.1. Economic and financial environment

Weakening of global economic growth

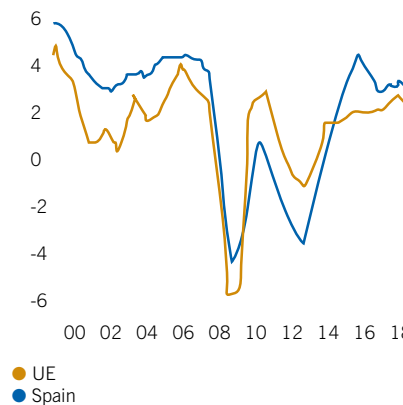
Globally, economic growth lost momentum during the course of 2018 due to an increase in protectionism, which reduced international trade, slightly more restrictive financing conditions and idiosyncratic factors in some countries (Italy, Turkey, United Kingdom etc.). According to data from the International Monetary Fund, during the second half of 2018, there was a downturn in industrial production, with the exception of the US, above all in capital goods.

In Europe, despite the strength of domestic consumption, the decline in external demand (protectionism and weakness of some emerging countries) weakened economic expansion in the more open economies of the Old Continent. Despite this, the euro zone continued to create solid employment, while the fall in credit flow continued to slow down in 2018.

In Spain, the slowdown during 2018 was notably less intense than in the euro area as a whole. There was notable household consumption which benefited from the generation of employment and the growth of income as a result of the tax measures approved in the 2018 General State Budget (PGE in its Spanish initials).

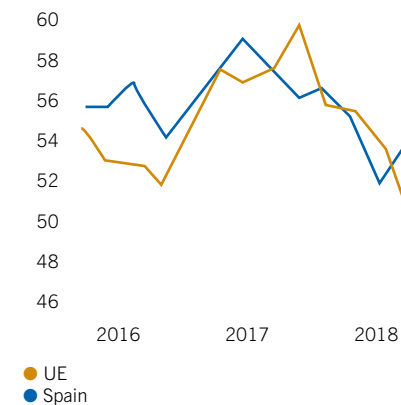
CONSOLIDATION OF ECONOMIC GROWTH...

ECONOMIC GROWTH



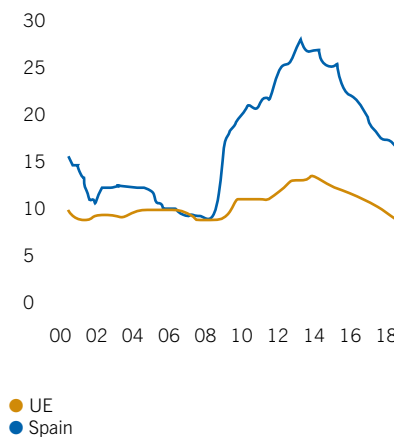
... ALTHOUGH ADJUSTMENT OF LEADING INDICATORS

COMPOSITE PMI



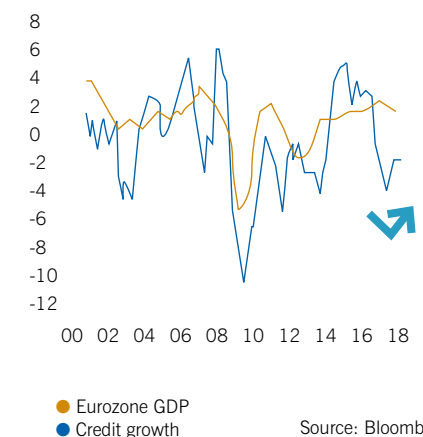
JOB CREATION CONTINUES TO INCREASE...

UNEMPLOYMENT RATE



... WHILE THE FALL IN CREDIT FLOW HAS SLOWED DOWN

CREDIT FLOWS VS. GDP



Slightly more restrictive monetary policy of the main central banks

In the US, the Federal Reserve, backed by the good performance of the US economy, continued to normalize its monetary policy by raising the official interest rate four times, once per quarter, putting it somewhere in the 2.25% – 2.50% range despite lower economic growth in the rest of the world. In Europe, the European Central Bank maintained the official interest rate and the deposit facility rate at 0% and -0.40% respectively. As for unconventional monetary policy measures, the ECB finalized the net purchases of assets as part of its Quantitative Easing programme.

In the United Kingdom, the Bank of England raised the official interest rate in June to 0.75% from 0.50%, the only increase in 2018. Throughout the year, the entity chaired by Mark Carney highlighted the negative impact that the negotiations for Brexit were having on the levels of private investment and domestic consumption, which fell slightly in the second half of the year.

In Japan, the Bank of Japan made the purchase of government bonds more flexible so that the 10-year bond would remain around 0%. Inflation in Japan is still significantly below the 2% target of the BoJ due to idiosyncratic structural factors.

The risks to growth point to a downturn

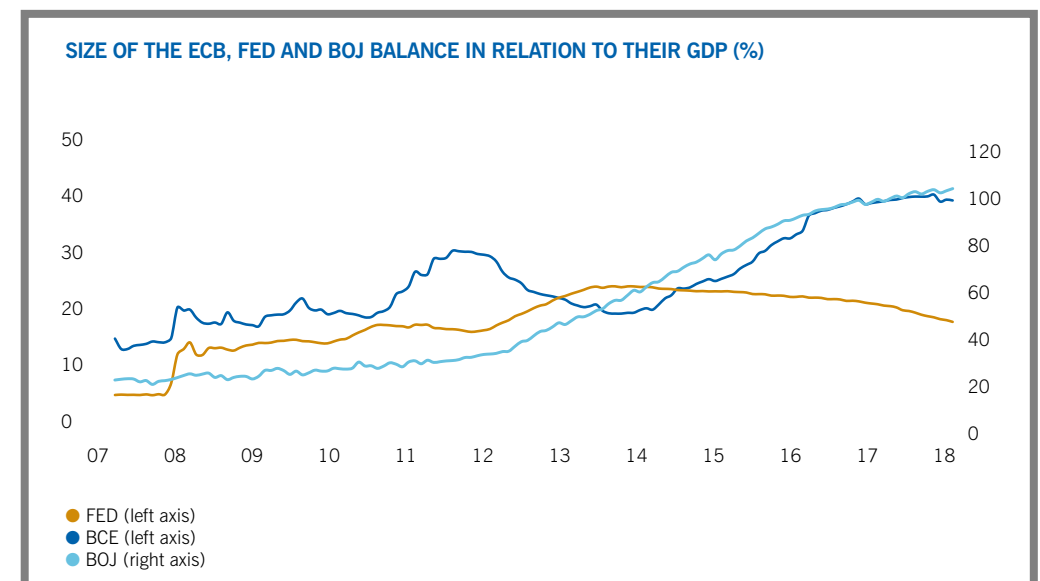
Trade tensions between the US and China, Brexit negotiations and more restrictive financial conditions are the main risks for global economic growth. Both trade and international investment diminish if the differences between the two main world powers are not resolved, since a potential increase in tariffs could restrict growth in productivity in the medium and long term and reduce levels of investment.

Lower forecasts for growth had an impact on financial markets

The most important global stock markets ended 2018 with negative returns. The German DAX index fell by approximately 18% due to threats to international trade in an economy characterized by the importance of its exports. Also in Europe, the Eurostoxx 50 and the IBEX 35 fell by 14.3% and 15% respectively.

On the other hand, despite negative closing for the year, the US stock markets showed the best relative performance and closed the year with falls of 5.6% in the Dow Jones and 3.9% in the Nasdaq.

With regards to lending, there was a generalized increase of the spreads of both Investment Grade and High Yield loans, and those sectors with greater dependence on the economic cycle were the ones that expanded the most (financial, industrial and consumer discretionary).



DISRUPTION IN FINANCIAL MARKETS (YEAR LEHMAN)

2018 was characterized by the poor performance of virtually every financial market, which led to a reduction in returns on asset diversification.

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
US 10 Y	MSCI EM	RUSSELL 2000	US 10 Y	EMU HY	MSCI Japan	Global Real Estate	MSCI Japan	RUSSELL 2000	MSCI China	US S/T Gov / Corp
EMU GOV	Global HY	Global Real Estate	Global Inflation	Global Real Estate	RUSSELL 2000	EMU GOV	Global Real Estate	US HY	MSCI EM	US 10 Y
US Aggreg	MSCI China	Commodities	EM Sovereign	Global HY	S&P 500	S&P 500	MSCI Europe	Global HY	S&P 500	EMU GOV
US S/T Gov / Corp	US HY	MSCI EM	EM Local Crncy	MSCI Japan	MSCI Europe	US 10 Y	EMU GOV	Commodities	MSCI Japan	US Aggreg
EMU Corporates	EMU HY	US HY	US IG	MSCI China	EMU HY	EMU Corporates	US 10 Y	EM Local Crncy	RUSSELL 2000	EMU Corporates
US IG	EM Sovereign	Global HY	US Aggreg	EM Local Crncy	US HY	MSCI Japan	EM Sovereign	S&P 500	Global HY	US HY
Global Inflation	EM Local Crncy	S&P 500	US HY	EM Sovereign	Global HY	US IG	EM Local Crncy	EM Sovereign	EM Local Crncy	US IG
EM Local Crncy	Global Real Estate	EM Sovereign	EMU GOV	US HY	EMU GOV	EM Sovereign	US Aggreg	MSCI EM	EM Sovereign	EMU HY
EM Sovereign	MSCI Europe	EM Local Crncy	Global HY	MSCI EM	EMU Corporates	US Aggreg	US S/T Gov / Corp	EMU HY	Global Inflation	Global Real Estate
US HY	RUSSELL 2000	EMU HY	EMU Corporates	RUSSELL 2000	MSCI China	EM Local Crncy	EMU HY	US IG	US HY	Global HY
Global HY	S&P 500	US 10 Y	US S/T Gov / Corp	EMU Corporates	US S/T Gov / Corp	MSCI China	EMU Corporates	EMU Corporates	MSCI Europe	Global Inflation
EMU HY	Commodities	US IG	S&P 500	S&P 500	US IG	MSCI Europe	US IG	Global Real Estate	US IG	EM Sovereign
RUSSELL 2000	US IG	MSCI Europe	EMU HY	MSCI Europe	US Aggreg	EMU HY	S&P 500	Global Inflation	EMU HY	EM Local Crncy
Commodities	EMU Corporates	US Aggreg	RUSSELL 2000	EMU GOV	Global Inflation	RUSSELL 2000	Global HY	EMU GOV	US Aggreg	S&P 500
S&P 500	Global Inflation	EMU Corporates	Global Real Estate	US IG	Global Real Estate	Global Inflation	US HY	US Aggreg	US 10 Y	RUSSELL 2000
MSCI Japan	MSCI Japan	Global Inflation	MSCI Europe	Global Inflation	MSCI EM	US HY	Global Inflation	US 10 Y	EMU Corporates	Commodities
MSCI Europe	US Aggreg	MSCI China	Commodities	US Aggreg	EM Sovereign	US S/T Gov / Corp	RUSSELL 2000	US S/T Gov / Corp	US S/T Gov / Corp	MSCI Europe
Global Real Estate	EMU GOV	EMU GOV	MSCI China	US 10 Y	US 10 Y	Global HY	MSCI China	MSCI Europe	Commodities	MSCI EM
MSCI China	US S/T Gov / Corp	US S/T Gov / Corp	MSCI EM	US S/T Gov / Corp	EM Local Crncy	MSCI EM	MSCI EM	MSCI China	EMU GOV	MSCI Japan
MSCI EM	US 10 Y	MSCI Japan	MSCI Japan	Commodities	Commodities	Commodities	Commodities	MSCI Japan	Global Real Estate	MSCI China



Fall of Lehman Brothers

- Negative Returns
- Positive Returns

4.2 Banking environment

Low returns is one of the challenges that the European banking sector is facing and is considered a systemic risk for financial stability according to the European Central Bank. Along with the implementation of efficiency and cost control programmes and the diversification and improvement of revenue sources, the ECB advocates the transition to digitization as a crucial factor in the business plans of financial institutions for the next few years.

A series of regulatory policies are helping to establish the appropriate institutional framework for the sector in Europe to make these necessary adjustments to business models. Measures that must include the termination of the banking union and the European Deposit Guarantee Fund, the alignment of national directives, progress in the unification of capital markets and reinforcing the resolution of non-performing loans.

Spanish banking sector

The evolution of the main banking business activities in Spain during 2018 was marked by an acceleration in the fall in gross loans to resident sectors (-4.1% year-on-year), driven down by the reduction of doubtful debts, which fell by 20.8% added thanks to the sales of portfolios of non-performing loans. As for new lending, even though it was higher in volume to that registered in the previous year in all segments, it was not enough to offset amortizations and maturities.

In terms of lending composition, it should be noted that consumer credit for families rose, and activity towards SMEs continued to grow at a high rate, especially due to an offer of better financial conditions, reflected in decreasing interest rates.

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In relation to customer lending, there continued to be a strong outflow of term deposits, most of which were transferred to demand deposits, in the expectation that interest rates will stay low for the foreseeable future. Also, the participation of customers in investment funds suffered as a result of the corrections of the financial markets in the last part of the year.

In this 2018 there was a sharp drop in the default rate. This reduction, of 201 basis points, was a direct consequence of the strong increase in the sales of portfolios of non-performing loans that occurred throughout the year, which reached approximately 60,000 million euros between operations announced and completed. As a result, at the end of the year, the sector's default rate stood at 5.84%.

If we analyze the evolution of the aggregate results of the sector, we can see how the interest margin decreased again. The lower income from low interest rates could not be compensated, in the same amount, by a reduction in financial costs. This fall, however, was checked in 2018, thanks to an improvement in financial income (consumer credit lending and purchase of peripheral debt). Moreover, fees continued to play an important part in the generation of recurrent income, especially in asset management and not so much in the provision of services directly related to the banking business.

Operating expenses fell by 2.5% in 2018, demonstrating the positive effects of the capacity adjustment of the last few years. It is also worth highlighting, with regard to write-offs, the reduction of provisions and impairment losses that the sector experienced in 2018, which resulted in a total net profit for the sector of 12.4 billion.

The main consequence of this positive evolution in the income statement was a notable improvement in profitability indicators with ROE standing at 5.74%. Lastly, the solvency of the Spanish financial sector presented a CET1 ratio of 11.8% at the end of the year, somewhat lower than in 2017.

	December 2018	Year to date (YTD)	
	Balance in millions of euros	€ Millions	%
Deposits (system total)	1,114,841	25,796	2.4%
Demand deposits	931,179	74,105	8.6%
Term deposits	183,661	48,309	-20.8%
Lending to other residential sectors	1,150,228	48,878	-4.1%
Of which: Normal	1,083,034	21,898	-2.0%
Of which: NPL	67,194	26,980	-28.6%
Lending to public authorities	68,956	9,154	-11.7%
Default rate	5.84%	-201 BP	
By numerator		- 225 BP	
By denominator		19 BP	
LtD	103%	- 6.9 BP	

Source: Afi from the Bank of Spain

The new normal regarding the profitability of the sector is obtained as a result of lower pressure from impaired assets.

4.3 Regulatory environment

September 2018 marked the 10 year anniversary of the collapse of Lehman Brothers, considered the key moment of a financial crisis that began to take shape in 2007 with the difficulties faced by the US subprime loan market.

In 2009, having analysed the reasons behind the crisis, the G20 agreed to a series of reforms that have gradually transformed into banking regulations. In Europe, these reforms were consolidated in 2014 with the birth of the Banking Union, which integrates several initiatives that have been developed at different speeds.

Therefore, of the three pillars of the Banking Union, the Single Supervisory Mechanism (SSM) is the one that is at the most advanced stage, although in the case of the less significant entities, the principle of proportionality is yet to be implemented. The Single Resolution Mechanism (SRM) has advanced in its institutional structure, but is awaiting

several developments that will allow it to better comply with its mandate. The flow of communication between the SSM and SRM must be enriched to avoid duplication in the submission of information by entities and facilitate supervisory work in its different areas. For its part, the European Deposit Guarantee Fund still requires a project to develop it.

In 2019, unlike the situation at the end of 2018, practically all the relevant European directives have been transposed, some of which are wide-ranging and have a significant impact on financial activities, supervisory bodies, the market and customers, such as MIFID II, PSD2 or the Real Estate Credit Law.

Therefore, in 2019 entities will likely face a notable regulatory impact due to the need to successfully carry out the different phases of effective implementation of the transposed regulations.

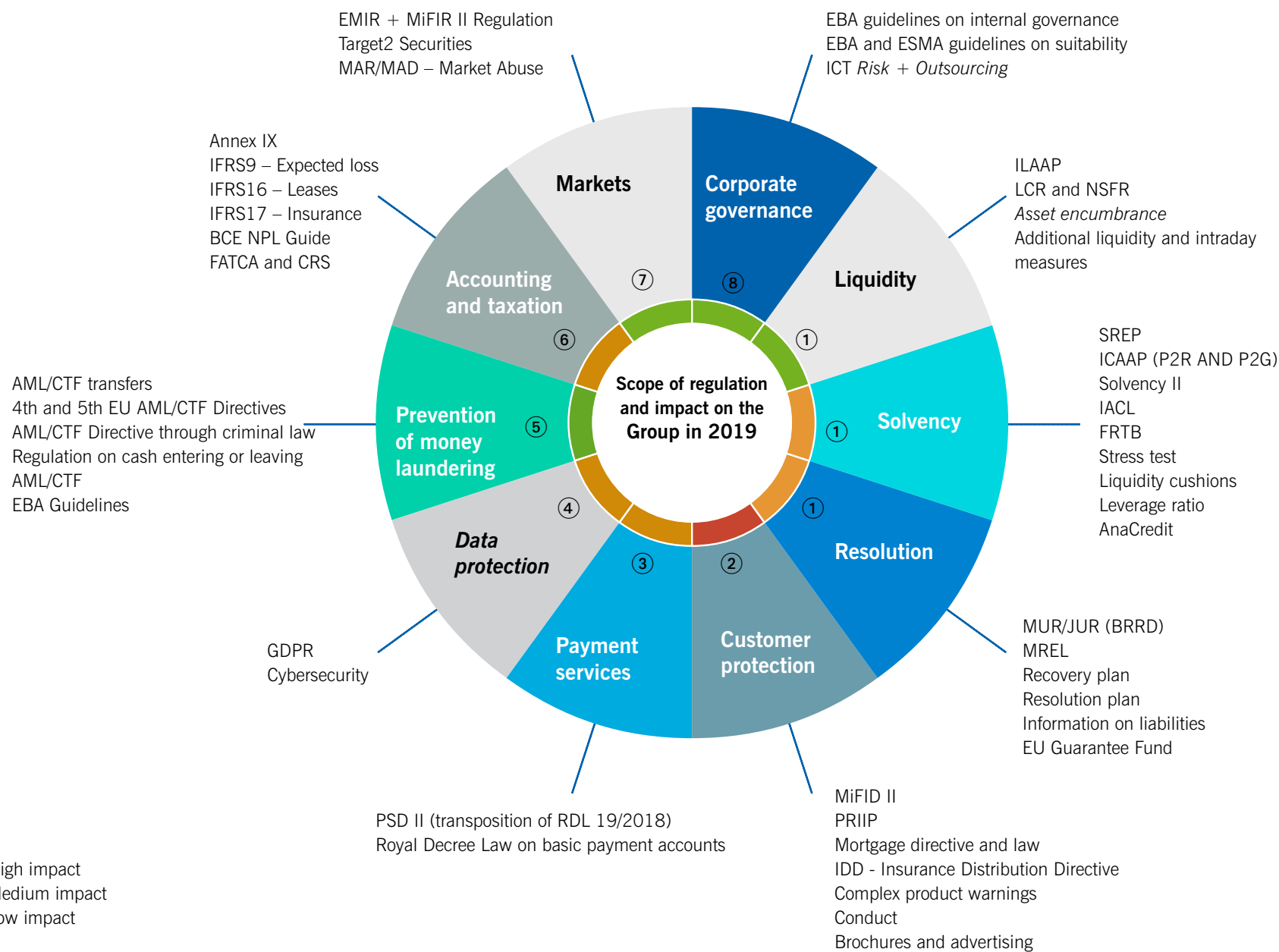
In the same regard, there are two factors that intensify the great regulatory challenge faced by the sector which are worth noting.

1. The impact of new regulations has not been felt by entities equally. The size, resources, structure, complexity, activity and even corporate form (such as a credit union) have played and play an important role in the different ways of meeting the challenges of regulations. As mentioned in the introduction, to date a principle of proportionality has not been developed that ensures the effort required by entities of different sizes to comply with the regulations is equal. However, recent changes in solvency regulations opens the way to changing the trend.

2. Additionally, the banking sector is experiencing a period of high litigation following the trend of previous years,

although the new real estate credit law is starting to bring order to the lending sphere. This is an issue of great concern that brings with it a high degree of legal insecurity and uncertainty for entities, because even when the sale of a product has been carried out in compliance with current legislation the associated contracts or certain clauses thereof may be declared null and void. Added to this is the high volume of new regulations, with very different scopes and dates of entry into force, which does not help in establishing a stable regulatory framework over time.

The following image indicates the regulatory changes which the Group is monitoring, with some of the most significant aspects of these changes described in more detail below.



1 Solvency, liquidity and resolution

NPL. Non-performing loans. NPLs continue to be one of the supervisory priorities. With the implementation of the modifications to the Capital Requirements Regulation, for new loans that are in default, the lack of coverage with respect to certain levels must be deducted from the capital.

ICAAP and ILAAP. Second year of implementation of the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) following the Guides to Internal Capital and Liquidity Adequacy Assessment Processes.

CRD V and CRR II. With an agreement reached after discussions between the Commission, the Parliament and the Council, the proposal for a new directive (CRD V) and a new regulation (CRR II) on capital and liquidity requirements is currently in the approval phase in the European Parliament. The CRR II establishes a Leverage Ratio in the EU of 3% and an NSFR Ratio of 100%. It also creates a new category of entity, the small and non-complex institutions (SNCI), with fewer reporting obligations, which is still in development.

Basel III. After completion of the Basel III reforms, work is underway to implement it in the EU by 2023.

FRTB. Small and medium-sized entities will be exempt from the market risk reporting obligation for 2020 based on the standard method of the Fundamental Review of the Trading Book (FRTB).

Resolution. Updating of the information necessary for the preparation by the authorities of the resolution plan. Modifications to the Bank recovery and resolution Directive (BRRD) are planned as a result of the experiences obtained from its implementation.

European Guarantee Fund. Still pending, at different political levels and with some dispute and a lack of consensus among different Member States.

MREL. The Single Resolution Board established the minimum requirements for own funds and eligible liabilities on risk-weighted assets and updated its policies for non-complex banks in November that are pending specification.

Integration of sustainability. Over the next 2 years, the EBA will analyse the need for integration of SRI elements in risk management processes and the SREP.

2 Customer protection

Customer protection has been one of the main regulatory and supervisory focal points of recent years. With a series of European directives and regulations, the aim is to improve transparency and protect bank customers. In this area, 2019 will be significant for the effective implementation of standards such as MiFID II and the Mortgage Law, and the final transposition of the IDD (Insurance Distribution Directive) is also planned for this year.

Customer Service. The publication of a new law on out-of-court settlement processes in the financial sector is expected, in which changes and greater demands are expected in relation to dealing with customer claims and complaints.

Advertising. A new regulation is expected that reinforces the requirements for designing, monitoring and disseminating advertising campaigns in the banking field.

SRI preferences: The Commission published legislative proposals that establish new requirements for financial advisors to ask customers for their preferences regarding the ESG criteria. A taxonomy is being developed and the measures will be adopted once the regulation has been approved.

3 Payment services

Intra-community payment services have for a number of years been a subject of concern, supervision and regulation by the EU. It started with SEPA and additional provisions have gradually been added.

This regulatory package aims to eliminate entry and exit barriers, facilitate payments between customers of different European entities and accommodate and regulate new agents.

PSD2. The PSD2 Directive, which regulates the above, should have been transposed in its entirety, although in 2018 it has only been partially transposed, which is why further development is expected for 2019.

④ Data protection/Fintech

Cyber risk. An area of special concern for supervisory bodies will continue to be the risk of cyber attacks. Stress tests are planned for certain entities in adverse scenarios in the face of this risk.

In recent years, different regulatory packages have been implemented that aim to improve security in electronic transactions and harmonize and improve the protection of personal data, also the result of new technologies. This work will continue to be developed.

GDPR. With the General Data Protection Regulation (GDPR) having entered into force in 2018, it is expected that in 2019 the current Organic Law on Data Protection will be adapted to this EU regulation in order to clarify and develop certain circumstances provided in the European standard.

⑤ Prevention of money laundering

Harmonization. Standards and requirements in the fight against money laundering and the financing of terrorism are harmonized at the European level. The impact at national level is not expected to be very high.

Cryptocurrencies. Additionally, regulatory developments, supervision and guidelines in the field of cryptocurrencies will continue to be developed.

⑥ Accounting and taxation

IFRS 9. Second year of operation of the new accounting circular (IFRS9) with consequences for the calculation of provisions based on expected loss.

IFRS 16. Application of the International Financial Reporting Standard 16 with the new accounting procedure for leases.

IFRS 17. A new comprehensive accounting standard for insurance contracts, which will apply as of 2021.

⑦ Markets

No major developments are foreseen, although the standards already published in previous years will be developed further in order to strengthen transparency in the markets, as well as to standardize criteria at the European level (EMIR/TARGET2S/MAD-MAR).

⑧ Corporate Governance

European Supervisory Authorities (ESAs) have issued definitive guidelines for national authorities in the area of the internal governance of entities and the process for assessing the suitability of board members, general managers and key personnel.

Integration in SREP. Both guidelines fall within the process of the internal governance of risks in the SREP (Supervisory Review Evolution Process).

The Board. There is a desire to reinforce governance aspects of entities (a cause for concern since this was one of the causes of the financial crisis) and increase requirements in the process of selection, assessment and approval of certain positions in entities.

Outsourcing. The aim is that good practices be implemented in the area of outsourcing of functions.



05 Strategy



Strategy

5.1. Presentation

About us

Caja de Ingenieros is a Spanish cooperative financial and insurance group that offers personal, commercial and institutional banking services. Its mission is to provide services to professionals and their families, whether they are engineers or are from other professions.

Established as a cooperative society by a group of industrial engineers in 1967, it has experienced continuous growth throughout its 50 years of history and has remained true to the mission that it defined at its inception: to provide personalized financial and insurance services under the most sustainable conditions.

Being a cooperative credit society means that any profits directly revert back to all of its members, resulting in numerous additional advantages and professional and personal services.

The cooperative model, which is the foundation of Caja de Ingenieros Group, fosters principles of ethics, commitment, trust and social responsibility and, therefore, a return for its members and employees, professional communities and society in general.

Caja de Ingenieros Group consists of a number of companies that enhance, optimize and diversify our capacity to provide services and support to members. All Group companies participate in CSR, but the social projects are carried out by the Caja de Ingenieros Foundation.

COMPANIES IN THE CAJA DE INGENIEROS GROUP

CORPORATE NAME	Registered Offices	Corporate Objective
Caja de Crédito de los Ingenieros, S. Coop. de Crédito	Vía Laietana, 39 08030 Barcelona	Cooperative credit society that conducts all kinds of asset, liability and service transactions in banking, with special focus on the financial needs of its members
Caja Ingenieros Gestión, Sociedad Gestora de Instituciones de Inversión Colectiva, SAU	Casp, 88 08010 Barcelona	The Caja de Ingenieros Group investment fund manager
Caja Ingenieros Vida, Compañía de Seguros y Reaseguros, SAU	Casp, 88 08010 Barcelona	Life insurance company selling additional social insurance products and a pension fund manager
Cooperativa de Consumidores y Usuarios de los Ingenieros (Ingenium Shopping)	Vía Laietana, 39 08003 Barcelona	Provision of services and sale of consumer articles and supplies for members
Caja Ingenieros, Operador de Bancaseguros Vinculado, SLU	Casp, 88 08010 Barcelona	Bancassurance operator in insurance mediation
Norbolsa, SV, SA*	Plaza Euskadi, 5 48009 Bilbao	Investment services company
Caja de Ingenieros Foundation	Potosí, 22 08030 Barcelona	Corporate social responsibility vehicle

* Associate. Caja de Ingenieros has a 10 % stake in Norbolsa, SV, SA. Even though this is less than 20% of share capital, it has significant influence over the investee as shown by its seat on the latter's Board of Directors..

Corporate organizational chart of Caja de Ingenieros Group companies

GOVERNING BOARD

José Oriol Sala Arlandis	Chairman
Manuel Bertran Mariné	Vice-Chairman
Félix Masjuán Teixidó	Secretary
David Parcerisas Vázquez	
Pedro A. Hernández del Santo	
Pedro Marín Giménez	
Jaime Roure Pagés	
José María Pera Abadía	
August Bou Camps	
Carme Botifoll Alegre	
Josep M. Muxí Comellas	
Antonio Santamans Olivé	
Ignasi Vinuesa Gimeno	

EXECUTIVE COMMITTEE

José Oriol Sala Arlandis	Chairman
Félix Masjuán Teixidó	Secretary
Manuel Bertran Mariné	
Pedro A. Hernández del Santo	

GENERAL MANAGER

Joan Cavallé Miranda

MANAGEMENT COMMITTEE

Joan Cavallé Miranda
 Jordi Marsan Ruiz ⁽¹⁾
 Mariano Muixí Vallès ⁽²⁾
 Francesc Duran Lorenzo
 David Murano Casanovas
 José Luis Sánchez Rabaneda
 Víctor Cardona Vernet
 Isabel Sánchez Soria
 Karen Schrijner
 Bas Fransen
 Montse Bertran Bergua
 Xavier Fabregas Martori
 Antoni Fernández Moreno ⁽³⁾
 Jaume Franco Domingo
 Juanjo Llopis Rodríguez

(1) Until September 2018.

(2) Since September 2018.

(3) Until December 2018.

CAJA INGENIEROS GESTIÓN

Máximo Borrell Vidal	Chairman
Jordi Martí i Pidelaserra	Member
Ferran Sicart i Ortí	Member
Xavier Fabregas Martori	General Manager

OBS

Jaume Franco Domingo (sole director)

CAJA INGENIEROS VIDA

Máximo Borrell Vidal	Chairman
Ferran Sicart Ortí	Vice-Chairman
Francesc Duran Lorenzo	Member
Montserrat Bertran Bergua	Member
Antoni Fernández Moreno	General Manager

CAJA DE INGENIEROS FOUNDATION

José Oriol Sala Arlandis	Chairman
Manuel Bertran Mariné	Vice-Chairman
Félix Masjuán Teixidó ⁽¹⁾	Secretary
Enric Homs Martínez ⁽²⁾	Secretary
David Parcerisas Vázquez	
Pedro A. Hernández del Santo	
Pedro Marín Giménez	
Jaume Roure Pagés	
José María Pera Abadía	
August Rafael Bou Camps	
Carme Botifoll Alegre	
Josep M. Muxí Comellas	
Antonio Santamans Olivé	
Ignasi Vinuesa Gimeno	
Joan Cavallé Miranda	
Benjamín Manuel Calvo Pérez ⁽²⁾	
Josefina Cambra Giné	
Salvador Domingo Comeche	
Ramón Ferrer Canela	
Antonio Galdón Ruiz	
José Miguel Muñoz Veiga	
Joan M. Vallvé Ribera	
José María Bueno ⁽³⁾	
Miguel Ángel Iriberry ⁽³⁾	

(1) Secretary since March 2018.

(2) Until March 2018.

(3) Since March 2018.

5.2. Mission, vision and values

MISSION

Deliver sustainable value

Caja de Ingenieros Group is a cooperative service group for professional communities with the mission of providing sustainable value to members in the financial, professional and personal fields.

To achieve this, it establishes long-term relationships based on ethics, commitment and trust, and ensures the Group's strength as a means of providing a return to its members, collaborators, professional communities and society.

Because of its focus and service excellence, it is a leader in the sector for professional communities, to which it devotes, through the Caja de Ingenieros Foundation, its social projects.

VALUES

Commitment to members and society



VISION

Be the leading bank

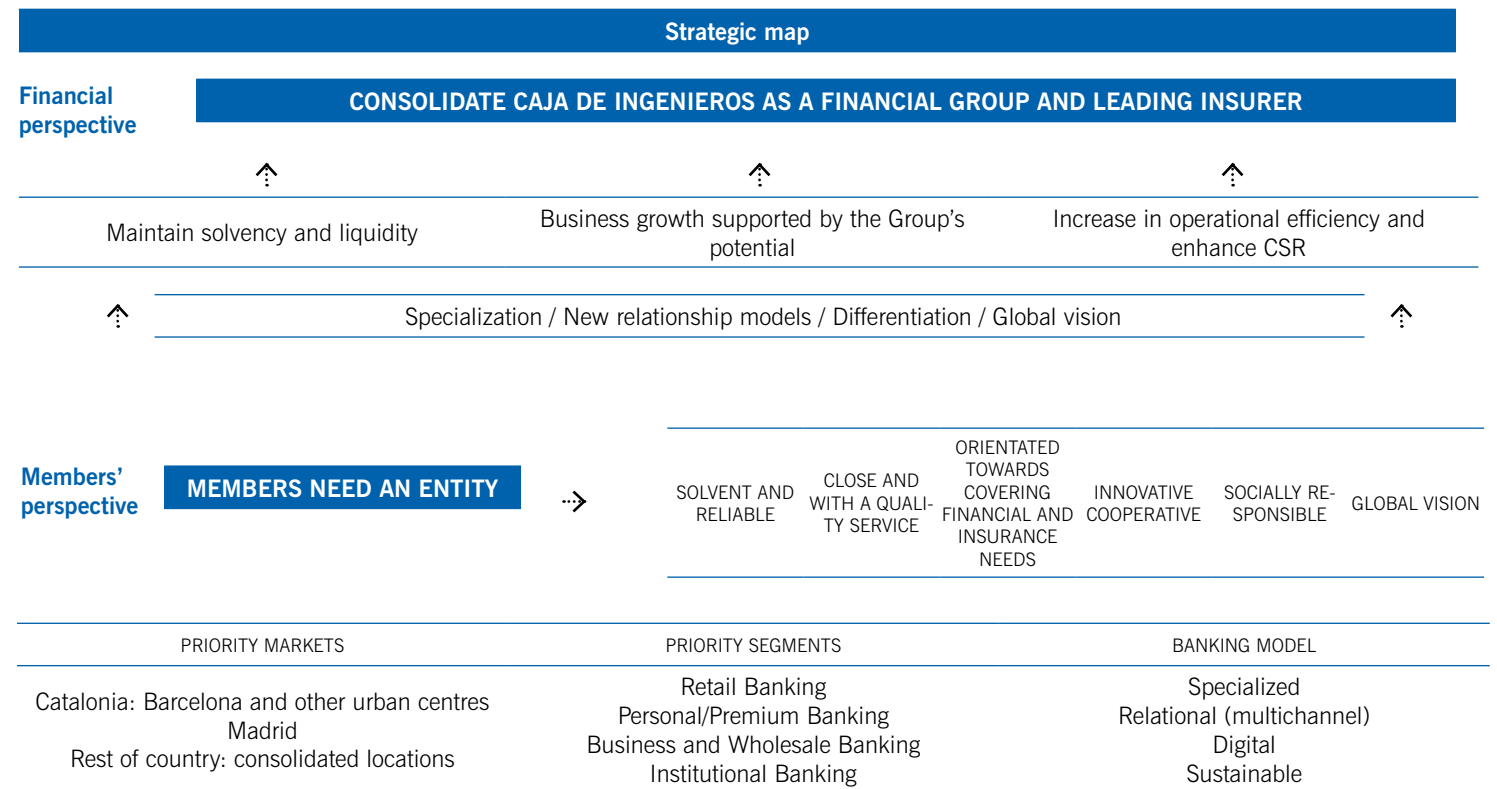
We want to become the leading entity for the professional communities with which we are associated, and, more specifically, the main one for our members, with whom we maintain a close relationship that goes beyond the mere financial.

To do this, we respond to the individual needs of each member by offering advice and the most appropriate solutions with a differentiated service. We have a highly qualified team committed to the Entity's mission and we are champions of innovation and technology, constantly working to improve efficiency as a way of achieving sustainability for our value proposition.

"Caja de Ingenieros bases its actions on a set of values that express its commitment to members and society".

5.3. IMPULSA Plan as lever for Caja de Ingenieros Group to adapt

IMPULSA 2019 has enabled the Caja de Ingenieros Group since 2015 to provide direction during these difficult years in the financial sector and of great transformation for the Entity. It has been an inspiring plan and a key tool to achieve the transformational change that we as an Entity needed to carry out. During this transition, we have overcome the both challenges we set ourselves and others that we had not foreseen. It has provided a clear and direct road map which has borne fruit at the end of the 2018 financial year.



Using the strategic map we built with IMPULSA 2019, we have continued to work on improving management processes with our members, focusing on offering a comprehensive and personalized value proposition thanks to the segmentation of our membership. Growth has allowed us to advance in the extraction of value from our relationships with members and consolidate digital channels as a source of interaction and service.

In 2018, we continued to promote our strategic lines of proactivity, high standards, effort and engagement, optimization of the use of resources and work on projects to achieve the goals that we have committed to meet year after year.

The results of the 2018 financial year are aligned with this Strategic Plan and are proof that the Group has consolidated its position as a leader in the Spanish cooperative banking sector.

Commitment to our members	Starting point	Situation	IMPULSA target
	2015	2018	2019
NPS	54.1	56	57.9
satisfaction rate	8.34	8.34	8.55
Corporate Social Responsibility			
Commitment to society	7.63	8.11	8.5
Total amount for projects (€ thousands)	413	504	1,000
Financial targets			
CET1	14.49%	14.24%	> 12%
ROE	8.61%	6.76%	> 9%
Efficiency	62.33%	76.01%	<60%
Turnover	€5 MILLION	€6.19 M	€8.3 M



For Caja de Ingenieros, the financial year posed different challenges beyond the purely financial and it focused on responding to a growth in service demand due to the notable increase in the number of members that placed their trust in the Entity, and in an effort to comply with the different regulatory requirements.

5.4. Strategic review 2018

2018 had to be a year in which the economic and financial context began a process of normalization after several months of negative interest rates since it was presumed that the ECB's monetary policy of systematic purchasing of financial assets would end and the conditions would then be right for interest rates to normalize and, consequently, for economic activity to be boosted both in Europe and in our country.

However, the different sources of uncertainty described in chapter 4 of this report outweighed the will of the main central banks, including the US Federal Reserve, immersed in an active monetary normalization that was interrupted and led to a continuation of this complacent monetary policy due to a slowdown in economic growth together with inflation rates below the targets set by the monetary authorities.

These elements strongly conditioned the progress of global stock markets and credit markets, which turned to safe haven assets due to the uncertainty and unfavourable climate for monetary normalization.

For Caja de Ingenieros, the financial year posed different challenges beyond the purely financial and it focused on responding to a **growth in service demand** due to the notable increase in the number of members that placed their trust in the Entity, and in **an effort to comply with the different regulatory requirements** in the different spheres.

In this regard, the impact of MiFID II on the advisory model and relations with members is worth highlighting, as well as the uncertainty generated by the reform of the mortgage law and the entry into force of data protection regulations that have imposed substantial changes both to the Entity's commercial area and to the service and business management model of the Entity, not only from the perspective of regulatory compliance.

However, these challenges were resolved in a very satisfactory manner, taking into account the record growth experienced in member numbers, turnover, lending and member satisfaction, which have reached **record levels in the Entity's history**. It is also worth noting that last year the entity maintained its investment effort throughout the year in technology

aimed at improving processes, making progress in internal digitization processes and in our relationship with members and being closer to our members with the opening of new AVANT offices, which have made it possible to improve productivity metrics and respond to the growth we experienced in the demand for services.

Of the challenges that we set ourselves for 2018, the results obtained were as follows:

2018 challenges	Metrics	2018 results	
Preserve the solvency of the Group as a lever to generate shared value with members	Keep CET1 above 14%	14.24%	↑
Improve in proximity with members, including digital banking	Ensure 65% of members are digital	65%	↑
Adapt to a financial/monetary context in a state of change	Increase recurring income by providing services up to 75% of the interest margin	63%	→
Consolidate the visibility of the cooperative banking model	Progress towards achieving the membership figure set in the IMPULSA 2019 strategic plan	More than 187,000 members	↑
Reinforce the commitment to sustainability of Caja de Ingenieros	Incorporate sustainability criteria in methods of payment and lending	MOVE card (100% biodegradable) + Financing ECO Loans + Signing of the Global Compact and adherence to the Sustainable Development Goals (SDG)	↑
Give visibility to the social impact of the Group's CSR	Measurement in monetary terms of the Foundation's social impact	Each euro donated multiplies by 3.5 its impact on society	↑



5.5. Trends and challenges

End of the regulatory phase, start of implementation

The banking system has seen the end of the great regulatory wave started in 2008 with Basel III, which will reach full application in 2019. Until then, no new regulatory formulations have been registered, although **a new and complex stage of consolidation and implementation of all the published regulations is beginning, which will entail significant integration efforts.**

Consolidation of the banking map and new players

The financial sector is going through a phase of transformation that is causing it to move in a double direction. The forces that promote these changes could be defined as centrifugal and centripetal forces.

The centrifugal forces are what have led to the process of banking concentration, which continues its course, although at a slower pace than in recent years, adding in recent times **a more pan-European view of the concentration process.**

On the other hand, the centripetal forces are those that have attracted **new actors offering specialized services** that were traditionally typical of the banking sector, such as payment method or investment selection services, characterized by their high technological level, immediacy and ease of use. These services include the so-called neobanks, which are already entering the competitive territory of traditional banking, although the feasibility of their business model is not currently proven.

Mobility and immediacy in banking services

Mobility and real time are critical factors for users of financial services. Therefore, **mobile devices are currently the fastest growing channel for interaction between customers and their financial entity** and with a very intense use of services.

Digital processing capabilities, artificial intelligence and, therefore, interactive responsiveness are fundamental to the high quality provision of financial services since consumer habits have changed and now require greater intensity in interaction with their financial provider.

In 2018, the Caja de Ingenieros Banca **MOBILE** app exceeded 13.5 million visits, with more than 93.5 million transactions carried out. For its part, our **ONLINE** Banking recorded almost 8 million visits during the year and more than 33 thousand visits per day. Therefore, for the first time, visits to **MOBILE** Banking exceeded **ONLINE** Banking for the first time.

Advice as a response to greater financial complexity

It is evident that financial decision making is becoming increasingly complicated for consumers, not only as a result of the greater complexity of the economic context but also due to the financial regulations themselves and greater consumer protection in the areas of investment and financing.

In this context, it is essential that we **promote financial training and quality, personalized and transparent professional advice** as key tools to be able to add value to consumer decision-making. Our Delegated Management services have emerged, then, as an alternative to exercise decision-making based on all of the analytical elements together and in the monitoring of results, and they eliminate the behavioural bias that hinders the optimal management of decisions.

Efficiency and productivity management

The protraction of negative interest rates, together with risk premiums distorted by the growth of the balance sheets of central banks and the impossibility of having these distortions passed on to the cost of bank liabilities, clearly puts pressure on the generation of income in the sector.

Likewise, digitization and competitive and regulatory pressure (both towards greater transparency in pricing policies and on sector costs to comply with regulatory requirements) are other elements that reduce income and, therefore, directly impact the efficiency of financial entity. In this context, **adapting the cost structure, improving productivity metrics, an adequate selection of risks on the balance sheet and the capacity for profitable growth are the levers that help address improvements in efficiency.**



5.6. Strategic objectives and metrics

Improvement in the quality of services for members

Objective

The strong growth of the membership, as a result of the highly valued attention and service offered to the members, implies a relationship of trust in the Entity that goes beyond the usual financial standards in the banking sector. As a result, members' expectations regarding the service increase not only because of the general process that forms the basis of operational digitization, but also because of the **value of the personalized advisory service** that is needed in a context of greater complexity of the Group's services. The areas of lending, asset management, insurance or pensions are more complex and difficult to understand without a solid financial culture, and in this sense the trust and knowledge provided by the Caja de Ingenieros Group are key management elements.

Implementation

We are continuing our strategy of **deploying new service centres through AVANT** offices which will be reinforced with an *Agile* management concept; in other words, a more intense service from professionals from the Member Services Area, both in the Personal Banking area and in the Business area. An ***Agile* manager concept that, from a central location, develops the service relationship interactively through digital communication formats without obviously renouncing the face-to-face relationship. This initiative enables physical infrastructures to be more efficient in terms of costs thanks to the support of digital infrastructures, which allow a higher level of personalized service and develop the relationship not exclusively in person.**

Personalization of the value proposition

Objective

The needs of our members are broad and increasingly complex, and it is our expert understanding of their needs that gives us the perfect platform with which to satisfy them. Even more important than the product, which is still just an instrument within a set of tools, is the **comprehensive service offerings** that in a segmented and personalized way allows us to manage the needs of members according to their wishes.

Implementation

Talking to members, listening to them and analysing their needs are fundamental elements for a properly adapting the service. The dual analogue and digital context of the relationship with members provides the main source of information for designing and segmenting service offerings. To achieve this, the use of technologies (artificial intelligence, machine learning, etc.), that allow a better management of the information and also a more adapted design of the different comprehensive service offerings for each segment, provides a greater value and quality of service. Additionally, **proactivity in the service offering to members** is fundamental to facilitate access to the different services offered by the Group, thus developing this activity in an orderly, structured and controlled manner and allowing a more effective adaptation to the wishes of member and to the changing conditions of the financial, legal and economic spheres.

"Listen, share, act" has been the slogan of the Member Services Department since December 2018

Improvement in efficiency and the productivity model

Objective

The financial context is characterized by a weak business cycle derived from zero or negative interest rates, sectoral competition and new players as well as financial regulation, which also affect the cost structure. In addition, the solvency requirement is growing which, at the same time, puts pressures on the profitability ratios of the sector.

From the perspective of Caja de Ingenieros, **a more economical access to financial services is one of the pillars** on which the Entity's cooperative model is based, obviously **without renouncing a generation of income that allows the Entity to capitalize appropriately** and, at the same time, remunerate the members for their contributions to the share capital.

Implementation

In the current monetary and sectoral cycle, overall efficiency constitutes a basic requirement for the systematic performance of the Group's activities. To achieve this, our action plans simultaneously address the three factors that comprise overall efficiency: **financial, operational and organizational efficiency**.

Financial efficiency is strongly affected by the context of interest rates and by keeping a low risk profile of the Group's activities, which would be inconsistent with the expectations of the Entity's members. The answer to the challenge is in a greater penetration of the different services among members, whose contribution to the improvement of the efficiency is significant through a proactive management of **the business drivers of those activities of greater value for members** and the Entity itself, such as **lending, asset management, pensions and insurance**, all of which are activities in which the Entity is highly competitive.

The growth levers of membership and turnover have a significant impact in the improvement of operational efficiency and enable **economies of scale to be generated in a greater number of operational processes**, although the improvement in **digital processes and self-service processes for members** has a significant impact for those areas of lower added value. Another important aspect is the adaptation of operational processes to an omnichannel and universal service vision.

Finally, organizational efficiency derives from the need for a more transversal approach, entrepreneurial culture and agility of the organization, in a way that enables an effective transition in size which is Caja de Ingenieros is undergoing.

New strategic objectives. The SDGs and their impact

Objective

In the last quarter of 2018, Caja de Ingenieros Group joined the United Nations Global Compact, whose main objectives are to promote the incorporation of the ten principles of sustainability in the areas of Human Rights, Environment, Labour and Anti-Corruption in business activities around the world and to channel actions that help achieve the Sustainable Development Goals.

The Sustainable Development Goals (SDGs) represent, for the first time, a commitment by organizations worldwide to promote actions that help fulfil them and measure their impact on society.

The financial system will play a central role in achieving the Sustainable Development Goals, since the resources required purpose will be enormous.

Sustainability financing is at the core of corporate strategy, since from the perspective of cooperative banking it includes the double purpose for which we carry out our activity: social and commercial.

Implementation

Three SDGs have been added to our strategic objectives for 2019, selected according to where the Group can have the most impact. These are Climate Action, Industry, Innovation and Infrastructure and Decent work and Economic Growth.

Objective impact metrics will be implemented for these selected goals that will affect, in turn, the Group's business objectives, creating a virtuous circle of positive externalities generated by these business initiatives that take into account non-financial aspects among their objectives.

SUSTAINABLE DEVELOPMENT GOALS



Main SDGs for the Caja de Ingenieros Group



5.7 Challenges of the 2019 Management Plan

The Caja de Ingenieros Group hopes to achieve disruptive growth in a slow financial business environment, which is why we started 2019 with the clear objective of increasing the value we provide to our members, the Entity itself and society.

Digitization will continue to be one of the driving forces of the transformational change our Entity is undergoing and we will maintain proximity with our members to continue offering them a professional and high quality advisory service.

In this context, our management challenges for 2019 are as follows:

Challenges 2019	Metrics
Preserve the solvency of the Group as a lever to generate shared value with members	Keep CET1 above 14%
Provide a complete and comprehensive value proposition in the areas of financing, investment and insurance for every member and in accordance with their personal and professional situation	Increase the rate of services used by members by 20%
Place emphasis on the quality of service provided to members and reinforce the proximity banking model through omnichannel and digital tools	Increase member satisfaction above 8.35
Maintain investment in technology to meet the challenges of proximity with members	Increase the number of digital members above 65% of the total
Increase the AVANT branch network in the regions with the highest demand for services	Promote the opening of a minimum of three offices
Further develop productivity and efficiency metrics that enable the building a balanced business management structure	Reduce the efficiency ratio by five points
Implement the Sustainable Development Goals and measure their contribution to society	Set tracking metrics for the three selected SDGs
A new strategic analysis that goes beyond IMPULSA 2019	New Strategic Plan 2020-2023

06

About us



About us

6.1. Corporate Governance

6.1.1. Organizational structure

We are firmly committed to carrying out our activities under the principles of ethics, transparency and good governance that govern the Group, responding to the requirements of different stakeholders.

This purpose has led to the creation of an organizational structure in

accordance with this responsibility.

The General Meeting, Governing Board and, as its delegated body, the Executive Committee are the governing bodies that exercise the Entity's control and management functions.

The Governing Board, the highest administrative body of Caja de Ingenieros, supervises the policies that ensure the establishment of internal control mechanisms.



General Meeting

The General Meeting is the main expression of the corporate will of Caja de Ingenieros. Its functions and powers are set out in the By-laws of the Entity and it is attended by members or their representatives. It also has the power to discuss matters of interest and make decisions regarding the general policy of the Entity.

The Governing Board is the Entity's governing, management and representative body which has the proper powers to perform its duties and carry out good governance.

Governing Board

The Governing Board is the Entity's governing, management and representative body and currently consists of thirteen full board members: a chairman, vice-chairman, secretary and ten others. No board member has the status of executive and the vast majority are independent. Twelve of them are elected from among the members by the General Meeting in a secret ballot and by the largest number of votes. The remaining member is a representative of the Entity's staff.

The Selection and Appointments Policy governs the assessment of candidates according to certain requirements of professional integrity, taking into account aspects such as track record, experience and expertise, which must all be appropriate to the functions to be performed. This policy articulates mechanisms so that the Board as a whole has the proper powers to perform its duties and carry out good governance of the Entity, given its scale, size and complexity.

Executive Committee

The Executive Committee consists of a chairman, vice-chairman, secretary and up to two members of the Governing Board. It is the body that exercises certain management and administration powers delegated by the Governing Board which are contained in the Internal Operating Rules of the Board. The Committee meets at least 12 times a year. The Governing Board always maintains its competence in the delegated powers and is responsible to the Entity, members, creditors and third parties for the management carried out by the Executive Committee.



Appointments and Remuneration Committee

The purpose of this committee, which is delegated by the Governing Board, is to supervise and advise on matters of remuneration, selection and appointment of members of the Board, senior management, key personnel and holders of internal control functions. To this end, it applies, among other measures, the Diversity Policy, which ensures that decisions are based on criteria of merit and the ability to perform functions in accordance with the candidate eligibility requirements contained in the legislation in force at the time, thereby preventing any implicit or explicit discriminatory bias. Its responsibility is to analyse and regularly monitor the Selection, Appointments and Dismissal policy relating to the above-mentioned positions, as well as the Remuneration Policy, ensuring that it is aligned with the Entity's sound and prudent management. The Appointments and Remuneration Committee consists of five members of the Board: a chairman, a secretary and three members, one of whom is an employee representative. The Committee, which meets at least once a year, is governed by Internal Operating Rules approved by the Governing Board, which set out its functions, responsibilities, competencies and duties.

Audit and Risk Committee

The Governing Board delegated Audit and Risk Committee supervises and advises on risk, providing regular analysis and monitoring within the scope of its delegated powers. Its main purpose is to assist the Board in determining and monitoring the risk strategy and activities of the Entity's Global Risk Management Area and Internal Audit Area. It meets at least once a quarter and consists of five members of the Board – a chairman, a secretary and three members. The Governing Board approved Internal Operating Rules of the Committee set out its functions, responsibilities, competencies and duties.

The Executive Management, in addition to its conventional management functions, participates actively in the internal control system.

General Management

This is the body responsible for the executive management of Caja de Ingenieros Group and, to that end, it has general powers in relation to the organization and management of the Group and coordination of the different areas of business, support and control. Senior management (General Management) actively participates in Caja de Ingenieros' internal control system and is kept up to date by all departments responsible for supervising its effectiveness. Caja de Ingenieros' General Management is also the Entity's representative before SEPBLAC, Spain's anti-money laundering watchdog.

Management Committee

Its function is to implement the Group's strategic objectives and, to that end, it has general powers in terms of organization and management, as well as coordination of the Entity's different areas of business, support and control, and other key areas. Currently, in order to respond to the Group's new circumstances, it has two committees:

- Caja de Ingenieros Management Committee: implements the Entity's strategic lines.
- Caja de Ingenieros Group Management Committee: implements the strategic lines of all the companies that make up the Group.

6.1.2. Functional organizational chart

In our functional organizational chart, all departments revolve around the member, the centre of our universe. We organize ourselves along four main lines of service through which, using a transversal approach, we collaborate as much as possible to provide members with a personalized and quality service. These lines are:

① Transversal corporate departments, responsible for the Group's institutional and corporate matters:

- CSR/Communications.
- Organization, Quality and Innovation.
- Legal Department/Customer Service.

② Business Areas: these provide all the products and services that our members may need.

- Asset Management (Caja Ingenieros Gestión SGIIC).
- Insurance Business (Caja Ingenieros Vida y Caja Ingenieros Operador Banca Seguros).
- Capital Market.
- Banking Business.

③ The member services area is our main driver and is made up of highly trained professionals to provide the best service.

Management segments:

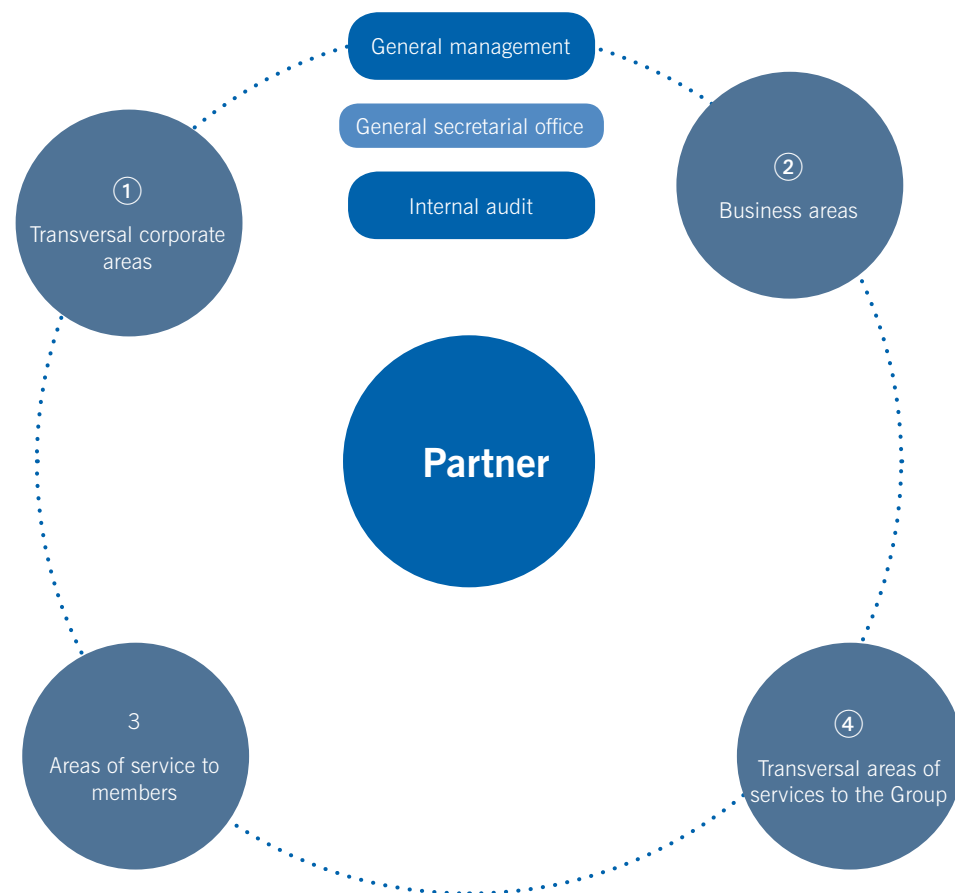
- Retail Banking.
- Personal Banking and Premium Banking.
- Institutional Banking.
- Business Banking.
- Wholesale Banking.

Departments:

- Business Intelligence and Planning.
- Marketing.
- Member Services and Digital Strategy..

④ Transversal areas of services to the Group offer global and interdisciplinary support to the entire organization.

- Centralized Back Office.
- Information Systems and Technology.
- People management.
- Global Risk Management.
- Finance department.

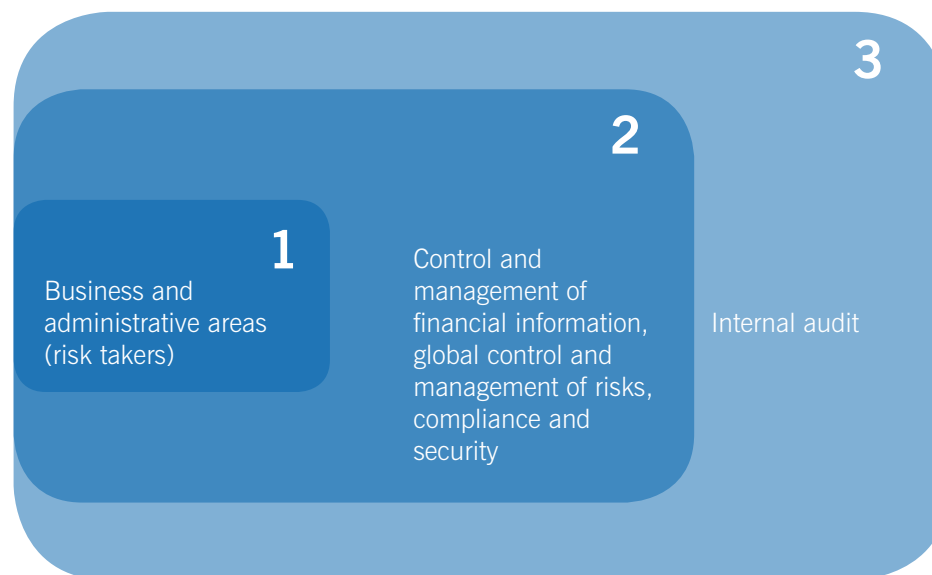


Three lines of defence model

Caja de Ingenieros Group has established a risk management and control model called 3LD (three lines of defence).

The model distinguishes three groups that participate in effective risk management:

- **First line of defence (1LD):** the functions that own and manage the risks. It is responsible for maintaining effective internal control and executing risk control procedures. It consists of business and/or operational areas.
- **Second line of defence (2LD):** the functions that monitor risk and carry out risk and compliance management to monitor the controls of the first line of defence. The specific functions include:
 - Risk management.
 - Compliance.
 - Security.
 - Control, which monitors financial risks, as well as the issuance of financial information.
- **Third line of defence (3LD):** fully assumed by Internal Audit, it provides the governing bodies and senior management with comprehensive assurance based on the highest level of independence within Caja de Ingenieros.



6.1.3. Good governance

The ability to structure with a business model that provides added value to stakeholders based on the application of values such as ethics, commitment and trust is a characteristic that has been with Caja de Ingenieros since its inception. It has mechanisms that allow it to generate transparent and truthful information to its stakeholders, establish guidelines for employee conduct and consolidate an efficient and sustainable business model. These mechanisms have been established with the aim of ensuring good governance practices within the Entity through the application of policies and internal rules that promote implementation, control and monitoring.

Code of Ethics

The Code of Ethics establishes the values, principles and rules that govern the work performed by the Entity and its employees. The Code promotes the carrying out of professional tasks with criteria of honesty, integrity, excellence, accountability and transparency.

The Entity complements the rules of good practice included in the Code of Ethics with the development and implementation of policies and guidelines on specific matters. The Internal Code of Conduct for the Securities Market is one such example.

Employees have at their disposal an ethical channel through which they can file a complaint or report possible breaches of the Code and/or its rules.

The Internal Control Committee monitors compliance with the rules of conduct implemented and reports on the following aspects to the governing bodies:

- Deficiencies detected in procedures and/or internal controls.
- Control tasks carried out to comply with the criteria and guidelines for action.

- Actions taken to resolve ethical conflicts that may arise.

Remuneration Policy

The Remuneration Policy defines the principles that promote coherent remuneration in line with current regulations.

The Governing Board of Caja de Ingenieros is the highest decision-making body and guarantor in the application of Caja de Ingenieros Group's Remuneration Policy, which is delegated to the Executive Committee.

This body has the responsibility of verifying, at least annually, the degree of compliance with the remuneration policy. Analysis of this degree of compliance is, in turn, delegated to the Appointments and Remuneration Committee, whose main functions are to propose, report on and supervise any matters relating to Caja de Ingenieros Group's Remuneration Policy; selection, appointment and dismissal of senior managers and key personnel; and internal control functions.

Every year, a Prudential Relevance Report is published, providing stakeholders with information about the Group's risk management system.

The principles that govern Caja de Ingenieros Group's Remuneration Policy are as follows:

1. Transparency.
2. Long-term sustainability.
3. Prudent risk management.
4. Link to results.
5. Generation of staff commitment and motivation.
6. Avoidance of possible conflicts of interest.

6.1.4. Team

Caja de Ingenieros as an employer

Through its Impulsa 2019 Strategic Plan, Caja de Ingenieros Group has opted to strengthen its people management model, furthering the development of talent and careers. As a result of this effort, at the end of 2018 the Group employed 473 people.

High-quality employment

Caja de Ingenieros attracts and retains the loyalty of talented professionals by offering high-quality employment conditions. In this regard, 96 % of employees have an open-ended contract and 99.36 % are full-time.

Delegation of responsibilities is promoted and entrepreneurship is encouraged among employees, giving them autonomy to carry out their ideas. Several initiatives are aimed at this, such as a suggestion box, participation in work groups and goal-orientated management.

In a professional context, new transversal work groups have been created and developed to promote innovation and improvement in our processes, while fostering collaboration and commitment among those who comprise them.

In addition, in 2018 a corporate volunteering programmed was created in collaboration with entities and projects such as EFEC (financial education in schools), Banc dels Aliments (food bank), Fundación Exit or Fundación Soñar Despierto.

Training the professionals of the future

Caja de Ingenieros Group offers a wide range of training programmes to its staff.

In 2018, 22,921 hours of training were provided, broken down as follows:

- 46% in the field of insurance.
- 18% in the field of banking and finance.
- 9% in the field of languages (English).

The various training programmes had 2,345 participants, a fact that highlights Caja de Ingenieros' commitment to the development of staff talent.

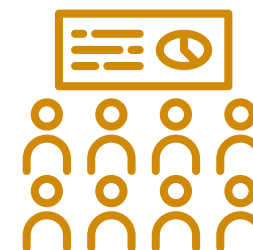
Leadership development

Having managers and executives with the necessary skills to lead and develop the staff in their teams is essential to promoting commitment and maintaining a business culture based on our shared values. To this end, Caja de Ingenieros Group offers programmes that help reinforce a shared leadership style among its managers and executives.

Equal opportunities

Providing equal opportunities is an essential principle that is fundamental to the Group's employment strength. We work to ensure equality of opportunity at all levels of the organization in order for everybody to have the same possibilities of gaining a job and achieving internal promotion.

An effective way of guaranteeing equal opportunities is to develop measures to ensure a good work-life balance. Among these measures offered by the entity are flexible working hours, parental leave, the possibility of unpaid leave and leaves of absence and the ability to work compressed working days at certain times of the year.



22,921

Training hours

46% INSURANCE

18% BANKING AND FINANCE

9% LANGUAGES



473

Group employees 31/12/2018

Growth of the Group's staff: + 3.05%

40.47

Average age (years)

10.92

Staff turnover rate
(Turnover formula = (New hires + voluntary leavers)/2*100/Average staff)

22,921

Training hours

467.75

Average staff numbers 2018

96%

Staff with an open-ended contract

70%

Staff with degrees

2,345

Training participants

58%

Men

42%

Women

99.36%

Full-time staff

10

Maternity leave

9

Paternity leave

49.10

Average hours of training / staff member

85%

Qualified advisors according to MiFID II



6.2. Service to members

6.2.1. Member relations model

Cooperative and socially responsible model

Our members are the hub around which all of our activities revolve and the main target on which Caja de Ingenieros is focused. For this reason, it is essential to retain their **confidence** and improve their level of **satisfaction** with the Entity on a daily basis.

Cooperative banking focuses its attention on the needs of professional communities, families and small and medium enterprises, and prioritizes the general interest and common good over private interests, thereby contributing to the development of the region and the sector.

And it is precisely this **member relations** model and our way of exercising this **responsibility with society** that has enabled us to overcome economic, political and social risk throughout our history.

One of Caja de Ingenieros' top priorities is to preserve the assets of its members by means of **prudent management** of risks in order to guarantee the necessary financial stability through appropriate solvency and liquidity ratios and the maintaining of **long-term relationships of trust**.

Our vocation of social responsibility is also transferred to innovation, creation and management of **socially responsible** investment products that take into account financial criteria and also other non-financial criteria, such as sustainability and the environment, with a major focus on combating climate change.

All this led us to a growth of 9.5 points in the NPS index (Net Promoter Score, according to STIGA), obtaining 56% in 2018, a figure that, compared to the 2.5% average of the sector, reflects the high degree of commitment of our members with the Entity.

One of Caja de Ingenieros' top priorities is to preserve the assets of its members by means of prudent management of risks.





2018 evolution

In 2018, membership increased by 17%, specifically by 23% in Catalonia and by 3% in the rest of Spain, which currently provides us with a total of over 187,000 members. This figure shows society's increasing approval of and engagement with a social economy and cooperative banking model.

During this period, we managed a turnover of over 6.19 billion euros, which represents a significant rise. Products in which an advisory component is important produced excellent results: the volume managed in savings and pensions rose by 27%. Similarly, the number of Discretionary Portfolio Management Service contracts increased by 39%; and the volume managed in this service for our members exceeded 235 million euros. For its part, financing was another key element and the number of mortgages formalized by our members rose by 17%.

In terms of branches, we continued to expand our network. Caja de Ingenieros opened two AVANT branches in **Vic (Rambla Hospital, 6)** and **Manresa (Passeig de Pere**

III, 66), as a result of the strategic agreement with **Mútua General de Catalunya**, signed in December 2017.

Both branches have been set up as personalized member service centres and share space in the **Mútua General de Catalunya** facilities. They employ Caja de Ingenieros staff specifically qualified for advisory activities (investments, financing or risk hedging-insurance), in addition to carrying out the operational functions of conventional bank branches. They also have a cash dispensing service, provided exclusively by ATMs.

The **AVANT** is a response by Caja de Ingenieros to the growth in demand for its services, but also responds to its desire to provide a personalized and valuable service through highly digitized and multichannel banking operations. This new concept avoids the costs of traditional bank branches and encourages digitization, without renouncing the provision of added-value services by Caja de Ingenieros Group staff through direct member relations.

Moreover, this strategic collaboration agreement has allowed us to take advantage of synergies and expand our presence in two towns in the province of Girona, **Blanes and Palamós**, both important Costa Brava tourist hubs. We have installed two Caja de Ingenieros ATMs in very central locations that will allow members to withdraw cash easily and quickly, 24 hours a day.

In addition, Caja de Ingenieros has opened a **new traditional branch in the Eixample district of Barcelona**. Located at Calle Comte Borrell, 202, it is managed by six staff from the Member Services Department. Its opening, after a significant investment effort, provides members with access to personalized services from 8:30 am to 7:00 pm uninterruptedly and offers proximity services to universal, personal and business banking segments with the objective of fulfilling their needs.

Finally, we moved our Bilbao branch to offer members a proximity service from a much larger and more central space. Located at Calle Alameda Rekalde, 2, it replaces the head office of Caja de Ingenieros in Bilbao, located in the

facilities of the Official Association of Industrial Engineers of Bizkaia. The new branch offers uninterrupted service to members from 8:30 am to 7:00 pm from Monday to Thursday, and Friday until 2:00 pm.

With these new openings, the Entity now has a total of 10 branches at the service of its members in Barcelona and a total of 30 in the distribution network of Caja de Ingenieros Group.

6.2.2. Digitization

Digital transformation remains one of the priorities of Caja de Ingenieros.

We find ourselves facing a dual relationship model in which users who prefer digital channels for their financial transactions and those who continue to opt for the traditional mode of service with personalized treatment and greater advice coexist.

The reality is that face-to-face or virtual use of the Entity's relationship channels does not depend so much on a specific socio-demographic profile but on new habits developed by the population in general. Data on usability shows that members, in certain circumstances, prefer a personal, face-to-face service and, on other occasions, opt for virtual channels. These proportions are

different depending on the profile of each member, with similar behaviours being identifiable from common characteristics.

This circumstance transversally affects many sectors of our business. Digital transformation defines how the Entity's technology and digital attributes are integrated with physical and personal capacities, promoting a change in the relationship model with our members that will enable us to help them meet their day-to-day needs.

This process requires a cultural change within the organization led by the Member Services Area and the Digital Strategy Department, which is responsible for promoting changes in the technological model, transactions and the digital strategy.

AVANT: our commitment to greater proximity with members.

The digital transformation process is based on three key points:

1. A structure that promotes digitization with a specialized team in this area.
2. The experience of members at the heart of things in order to adapt our relationship model to individual needs across all channels, giving rise to new value propositions, products and services.

3. Technological solutions to enable personalization of the experience through open architectures and collaborative platforms, which means redefining the model in a scalable and flexible way, adopting simplicity and transactional efficiency.



Indicators

In 2018, monthly visits to **MOBILE** Banking increased by 135% and active members increased by 50%, due in particular to the incorporation of **digital fingerprint** and **Face ID** access. This led to double the number of transactions and the number of members exclusively using **MOBILE** Banking, exceeding number of **ONLINE** Banking visits.

The number of connected members grew by 20%, which represents 84% of the total active members of the Entity, well above the Spanish average (46%) and the European average (51%).

Through non-face-to-face channels, transactions amounting to 2.5 billion euros were managed, representing an increase of 33% over the previous year.

Consolidation of the use of non-face-to-face channels by our members is particularly notable and more and more people are opting for a digital relationship with the Entity. In 2018 there were more than 13.5 million visits, which represents an increase of 35.6% and 94 million transactions were carried out through these channels, an increase of 36%.

On the other hand, it is important to highlight how in this period new members were attracted through non-face-to-face channels.

The **Become a member without moving** service which was launched in 2017 has become well-established and enabled new members to register without having to visit a branch. In total, 3,116 members registered through this service, 82% more than the previous year, which represents 11% of total registrations in 2018.

In 2018, more than 1,200,000 unique users visited our public website. We received more than 11,600 application forms for services through our website and **ONLINE** Banking channel, 105% more than the previous year, and sales through non-contact channels increased by 55%.



+36%

Digital Banking transactions

+33% in value

1,200,000

Visits to the website (unique users)

+20%

Connected members

84% of total active members

11,600

application forms received

105% more than in 2017

Our digital indicators are in line with the major European entities.

Projects

In line with our Strategic Plan's actions geared towards digital transformation, 2018 saw the launch of a new version of the **MOBILE** Banking app, which includes **digital fingerprint and Face ID access**, which boosted the use of the mobile channel.

We also incorporated new features in our **ONLINE** Banking to offer a better service, such as **immediate transfers**, the possibility of **transferring credit card funds to current accounts** and **buying or selling ETFs**.

In turn, in order to offer a more personalized and quality advisory service, we created the **new space "My Manager"**, a service accessible through Online **BANKING THAT ALLOWS MEMBERS TO CONTACT THEIR ACCOUNT MANAGER AND BRANCH DIRECTLY MAKING COMMUNICATION FASTER AND MORE AGILE**.

When accessing this service, the user can see a description of the manager, as well as the options for interacting with them:

- Contact by email and queries.
- Request for a personal interview.
- Request for them to call.

Likewise, the location and timetables of the manager's branch are provided. The image of the branch's location links directly to Google Maps.

Another of the key projects of 2018 was **Multichannel Contracting**, a service available at branches that allows members to contract a product without the need for the member visit the branch.

The operation is simple:

- The manager prepares the contract of the product.
- The member receives a notification on their mobile phone and/or via email in which they are told informed that the contract is available to sign.
- The member accesses the **ONLINE** Banking app and signs the contract without having to go to the branch.

But Multichannel Contracting is not only significant for its operational ease but also because it improves the efficiency of the Entity saving costs and **reinforces our commitment to sustainability by avoiding the printing of documentation**. But, above all, it has a positive impact on the satisfaction of the member due to the improvement of the service and also in the increase of our commercial productivity, since it allows us to dedicate better quality time in the meetings with our members.

Servicios Digitales

Tu oficina donde quieras
y cuando quieras.



6.2.3. Communication with members

Direct communications with members was significant in 2018.

Traditional channels

5 Workshops

in different cities in Spain

7 Training courses

imparted by Caja de Ingenieros Foundation in Barcelona and Madrid

10 Institutional acts

in Barcelona and Madrid

Publications

2 copies of Ingenieros INFO

1 copy of Fundación INFO

6 copies of Gestion@ Inversión

1 copy of Gestion@ Previsión

Caja de Ingenieros Corporate Blog

One of the new online channels created in 2018 was the Caja de Ingenieros blog.

The blog is a non-commercial corporate instrument that aims to disseminate non-financial information which is included in one of the following 4 editorial lines:

- Social.
- Cooperative.
- Finance.
- News.

The posts with the most visits are those in the Social and Cooperative categories, in particular those on themes of sustainability and environmentally friendly lifestyles.

121

posts published

46,854

total visits in 2018

30% more than forecast



Social networks

The social networks used by Caja de Ingenieros provide a virtual channel of interaction with members that, in addition to disseminating corporate and commercial content, serve as a direct and immediate channel of communication with members.

Facebook and **Twitter** are the channels most used by members when communicating quickly and effectively. In 2018, our social networks managed 941 conversations with members.

LinkedIn is a social network for professionals that is gaining more and more importance in the professional sphere. Caja de Ingenieros Group has set up a professional profile and 4 sub-pages for its subsidiaries **Ingenium Shopping**, Caja de Ingenieros Foundation, Caja Ingenieros Vida and Caja Ingenieros Gestión). During 2018, the Group's professional LinkedIn page increased the number of followers by 55%.

Caja de Ingenieros Foundation also created and manages a profile on **Instagram** @sustainableeconomy.



34,926

Caja de Ingenieros Twitter Followers

27% more than 2017

16,522

Caja de Ingenieros Facebook Followers

10% more than 2017

4,083

Instagram Followers

46% more than 2017

11,156

Caja de Ingenieros Foundation Twitter Followers

24% more than 2017

840

Caja de Ingenieros Foundation Facebook Followers

12% more than 2017

8,582

LinkedIn Followers

55% more than 2017

6.2.4. Personalized services

Placing the focus on our members represents a radical change in our relationship processes with them. We need to understand our members better so that we can offer them the high quality service that we have proposed and adapt it to their needs.

The IMPULSA 2019 strategic plan promotes action based on the segmentation of members to enable us to improve and better personalize the services we offer them.

After detailed study, we identified the key segments in which the different types of members are grouped. Depending on the segment to which they belong, they require a differentiated service, both in terms of product offerings and advice.

Segmentation has become a fundamental tool throughout our organization, as it facilitates the identification of service demands and, consequently, enables us to react swiftly to them.



Our challenge in 2018 was to customize the services we offer through flexible and global solutions (finance, insurance and pensions).

Personal Banking

The complexity of asset management requires increased monitoring and control of asset value and integrity to achieve the desired performance.

Members of the Personal Banking segment can enjoy a personalized service thanks to the assignment of a **Personal Banker, accredited as a financial advisor** (European Advisor), who provides them with full advice in the financial, insurance and pensions areas.

Their role is to provide members with a comprehensive advisory service that helps them find the best solutions according to their needs and risk profile, and taking into account both the current economic-financial context and the management of financial risks.

We have a staff of experts who help members of this segment to fulfill their needs through personalized interviews, which also address issues such as past, present and future economic circumstances, expenditure forecasts, available assets, professional and family situation, retirement or other relevant aspects that allow them to create a customized financial plan.

Once the member's profile and needs have been analysed, the advisor prepares a comprehensive proposal in close collaboration with the different management teams of the Group, to share it with the member.

In the **area of Investment**, we offer the following services:

- Advice on the selection of financial assets: investment funds, pension plans, equities, fixed income, life/savings insurance, ETFs, money market.
- Advice on the design of customized investment portfolios, both overall and by financial assets.
- Risk management and control measurement.
- Economic and financial monitoring reports.

All this following a proper and appropriate investment philosophy and methodology based on four pillars:

- PILLAR I: Definition of the risk profile.



- PILAR II: Diversification of the investment portfolio.
- PILLAR III: Dynamic adjustment of the portfolio.
- PILLAR IV: Socially responsible investment.

Establishing the investor profile, through the suitability test and the advisability test, determines the composition of the investment portfolio.

We aim to make the investments profitable and diverse with products and services that adapt to specific needs:

- Targets for the preservation of capital (through processes of value generation, diversification and optimization of portfolios).
- Delegation of management: discretionary portfolio management.
- Financial-fiscal optimization.
- Detailed and personalized monitoring of the managed portfolio.

- Optimization of financial asset structures, taking into account the situation and asset and personal needs of the member.
- Personalized design of investment portfolios based on the financial perspective of our investment management team.

- Risk management.

We provide our Personal Banking members with exclusive information on the macroeconomic situation, evolution and prospects of the financial markets, strategic reports on the allocation of financial assets (Asset Allocation), example portfolios, special reports on important events in the markets, etc.

- Guide to Personal Banking services.
- Notebooks on finance and insurance: investment guide.
- Definition of risk profiles - Strategic Asset Allocation according to the investor profile.

We also offer, in the **insurance field**, the Insurance Advisory Service of Caja de Ingenieros so that the member has a global offer for their insurance needs, integrating tailored solutions for the management of the different risks to which they may be exposed.

The service offers:

- A comprehensive perspective: we make an individualized proposal that provides added value factors, such as risk analysis, recommendations

We aim to make the investments profitable and diverse with products and services that adapt to specific needs.

for proper management and coverage adapted to the needs.

- We make management easier: we do not make several proposals or policies, but we integrate in a single document the joint analysis of all the risks, assessing the advantages for the member (coverage and price) and combining everything in an easy to understand format for better understanding.
- Never-ending service: our commitment is to properly manage all risks and review them periodically. We call that proactive anticipation. In addition, we also subsequently monitor and keep the member informed of the status of any procedure or claim through our recognized customer service and support.

Retail Banking

Young people

The new digital generations have specific needs in terms of services and financing. With particular focus on their education, the beginning of their professional careers or their entrepreneurship projects.

IMAGINA has been, since 2012, the Caja de Ingenieros programme aimed at providing young people with access to the financial and insurance services they need. With this programme, they can start managing their money, make and receive transfers, deposit their first pay cheque, obtain discounts on purchases with Ingenium Shopping Joven, secure financing for their university and postgraduate studies, buy their first car or motorcycle, travel abroad and take out insurance for young people, among many other possibilities. They are also provided with access to the entire digital environment 24 hours a day, from any

part of the world, which enables them to enjoy highly advantageous terms for overseas travel, accident coverage, digital payments with IngenierosPAY, etc.

IMAGINA is the programme aimed at providing young people with access to the financial and insurance services they need.



Families

Caja de Ingenieros accompanies families throughout their lives, sharing projects and dreams with them and providing them with the financial and insurance products and services they need at any time. Our services are adapted to all families: those that embarking on a project together, those that growing, those that are looking for a home, those seeking the best education for their children and even those whose children are starting their own projects far from home.

The products and services aimed at the family segment are focused on the day-to-day management of finances, and include advantages in relation to receiving pay cheques and making direct debits, applying for debit and credit cards, gaining easy access to their accounts and carrying out transactions through mobile and Internet channels.

At the asset creation stage, we provide the necessary financing for purchasing homes and cars.

Our experts are highly experienced an professional and can advise and channel savings towards instruments that best suit different risk profiles and goals. We also offer advice on savings plans to complement retirement pensions.

Similarly, we can advise on the most appropriate insurance to protect against personal, family and asset risks. We assess the risks that are particularly important for families, analyse personal circumstances and make an individualized proposal with the best solutions and coverage for each particular case.

We accompany families by sharing their projects and dreams with them.



Professionals and the Self-employed

Professionals evolve continuously throughout their working lives. Therefore they require different financial service proposals depending on the life situation they find themselves in.

Our desire is to make the daily lives of professionals as easy as possible, enabling them to focus on their projects by providing them with the necessary tools to manage their business through the Professional Account.

At Caja de Ingenieros, we believe in the projects of our members and we support them in the development of their businesses or professional activities. To do so, we carry out a personalized study of their proposals and put at their disposal a wide range of financing methods that suit their personal characteristics. We also provide comprehensive advice for savings surpluses and seek the best investment instruments.

Through an individualized insurance advisory service, we carry out analysis of all risks inherent to their activities (premises, personal, civil liability, computer-related) to offer them proposals tailored to their needs. We also offer personal protection plans for self-employed professionals.

In addition, we can provide advice on supplementing retirement pensions and help plan savings for this purpose. Through our **Pension Simulator**, we can carry out financial projections for retirement and even take into account possible life contingencies (temporary incapacity, disability, widow/widowerhood and death) to provide a future planning proposal.

We believe in the projects of our members and we support them in the development of their businesses or professional activities.



Business Banking and Wholesale Banking

Every business activity needs appropriate management of the different types of risk, whether they be financial, civil liability, corporate, asset or personal. Risk management is not just an essential activity for large companies, it is vital for all companies, regardless of their size. At Caja de Ingenieros Group, we help identify risks and recommend solutions that suit the activities of each company and are aimed at reducing and minimizing their possible impact.

To support and give stability to their daily activities, we recommend the most practical and advanced personalized options: credit accounts to facilitate business financing, invoice advance payment policies and subsidies that are linked to increased company activity and complement the financing of investments in fixed assets, financial, economic and technical guarantees, medium and long-term risk coverage for multiple purposes.

Companies are a highly differentiated segment that requires specific attention. Specialist managers provide the most appropriate services with

the most appropriate financial and personalized solution according to the business.

We have managers who specialize in the management of large corporations and public administrations which are managed as part the **Wholesale Banking** segment. These types of members include companies that have a turnover of more than 50 million, have more than 250 employees and/or have more than 43 million euros in assets. Also included in this segment are public administrations, both town councils and local corporations.

Caja de Ingenieros Group offers all of them a value proposition aimed at:

- Minimizing risk.
- Maximizing operational efficiency.
- Obtaining the maximum return on the available resources.
- Supporting growth.
- Improving the experience of the stakeholders.

Managers specializing in companies provide services and offer the most appropriate financial solutions for each type of company.



6.2.5. Tailored solutions

Our goal is to offer quality financial services, which are tailored to meet the needs of our members. To achieve this we believe that it is fundamental that we accompany, guide and advise our members in making decisions.

The three areas in which advice is the basis of the service are:

- Financing.
- Asset management.
- Insurance.

Financing

We want to offer the best financing solution for the projects of our members throughout their lives. We adapt to the individual needs of each family, professional, company, public sector body and institution, with a personalized and differentiated service based on an investment policy aligned with the principles of responsible banking management, which means professional and prudent management of risks and incorporates criteria of sustainability and preservation of the environment.

The range of products includes:

- Mortgage loans for the purchase or renovation of homes, commercial premises or industrial warehouses, with members able to choose between different instruments at variable, fixed or mixed interest rates and terms that enable financial commitments to be adapted to the ability to pay.
- Personal loans for the financing of current investments, studies and consumption. For example, the ECO Loan offers favourable conditions for the financing of investments in

relation to the improvement of energy efficiency for families, professionals and companies.

- Credit policies to cover the short-term financing needs of companies.
- Guarantees to guarantee future commitments.

We have also reached agreements with institutions such as the Official Credit Institute (ICO), European Investment Fund (EIF) and Reciprocal Guarantee Companies (SGR), which complement our offering and enable us to make products and guarantees available to companies and professionals to facilitate their investment projects and/or cover their working capital financing needs.

We apply active management and continuous follow-up to our exposures to ensure their proper evolution and implement measures or corrections for those that require them. In addition, our Code of Good Practice reinforces the protection of mortgage debtors without resources, and regulates and limits certain conditions for the restructuring of mortgage loans.

We adapt to the financing needs of each family, professional, company, public sector body and institution, with a personalized service.

Asset management

Our aim is to accompany members in making decisions regarding asset investment. The complexity and wide variety of financial instruments requires the expert knowledge that the Group's professionals can contribute to the investment solutions of members.

Our services include:

- Preservation of capital (value generation, diversification and optimization of portfolios).
- Personalized design of investment portfolios based on the financial perspective of our investment management team.
- Financial-fiscal optimization.
- Optimization of financial asset structures, taking into account the situation and asset and personal needs.
- Delegation of management through the Discretionary Portfolio Management Service, a tool exclusive to Caja de Ingenieros.

- Detailed and personalized monitoring of the managed portfolio.

In all cases, investment profiles and investment portfolio compositions are determined through suitability and advisability tests, as well as other requirements requested by members.

With the aim of granting the highest level of protection for investors, we promote a greater transparency of the information provided as well as a greater adaptation of the products to the profile of each member. To achieve this, we have new features that improve not only protection and transparency for members, but also the services of markets and financial instruments. New financial information and analysis tools, new available products and a new advisory service.

Our investment services offer the attributes:

1. Specialized and certified training of our professional team. The Member Services team has the highest professional qualifications and official certification to inform on financial instruments and provide investment services.

2. Adoption of a dependent advisory model to support members in their investment decisions. Investment recommendations will be adjusted exclusively to investment objectives, **taking into account the degree of risk aversion, taxation and time horizons of members.**

3. Better execution. Caja de Ingenieros has a policy of better execution of orders made by members and carried out through Caja de Ingenieros or intermediaries.

4. Total transparency of fees, expenses and incentives. Information about the costs and expenses associated with each service and financial instrument, as well as any incentives that Caja de Ingenieros could obtain for the marketing of third-party products, will be communicated in detail.

New financial information and analysis tools, new available products and a new advisory service.

Insurance and Pensions Advisory Service

In 2018 we continued to apply a 360° view to thoroughly cover all of our members' insurance needs.

The Insurance Advisory Service is based on analysis and assessment of risks derived from personal circumstances, the review of insurance positions and their coverage, and the comparison with needs to create a personalized proposition.

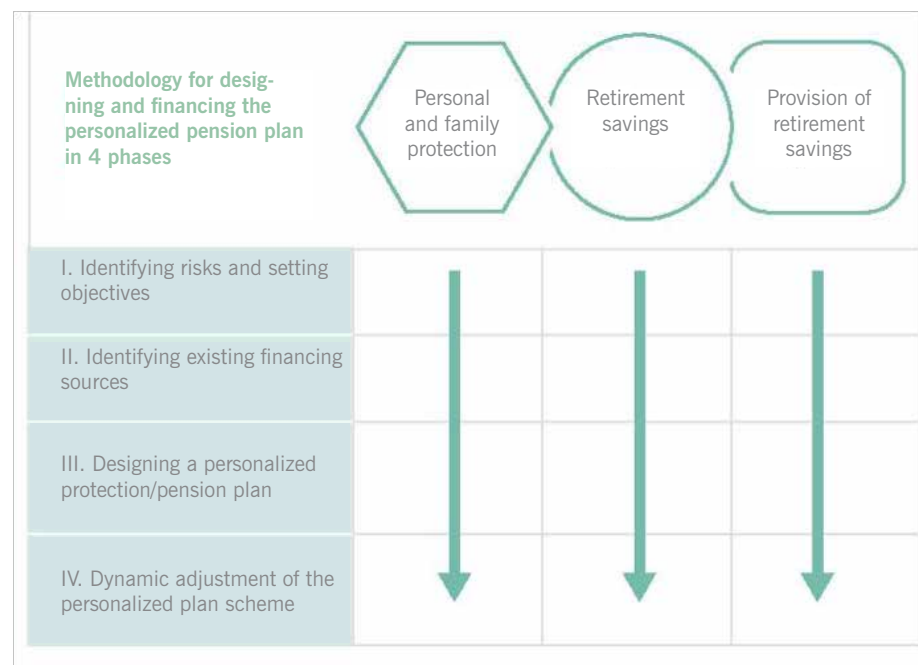
Our service includes a selection of trusted companies, valued for their excellence of service, price, solvency, reputation and performance in the event of loss.

We provide comprehensive and continuous day-to-day management of insurance portfolios, supervision of the quality of coverage and services they offer and our own claims service to ensure appropriate and prompt processing.

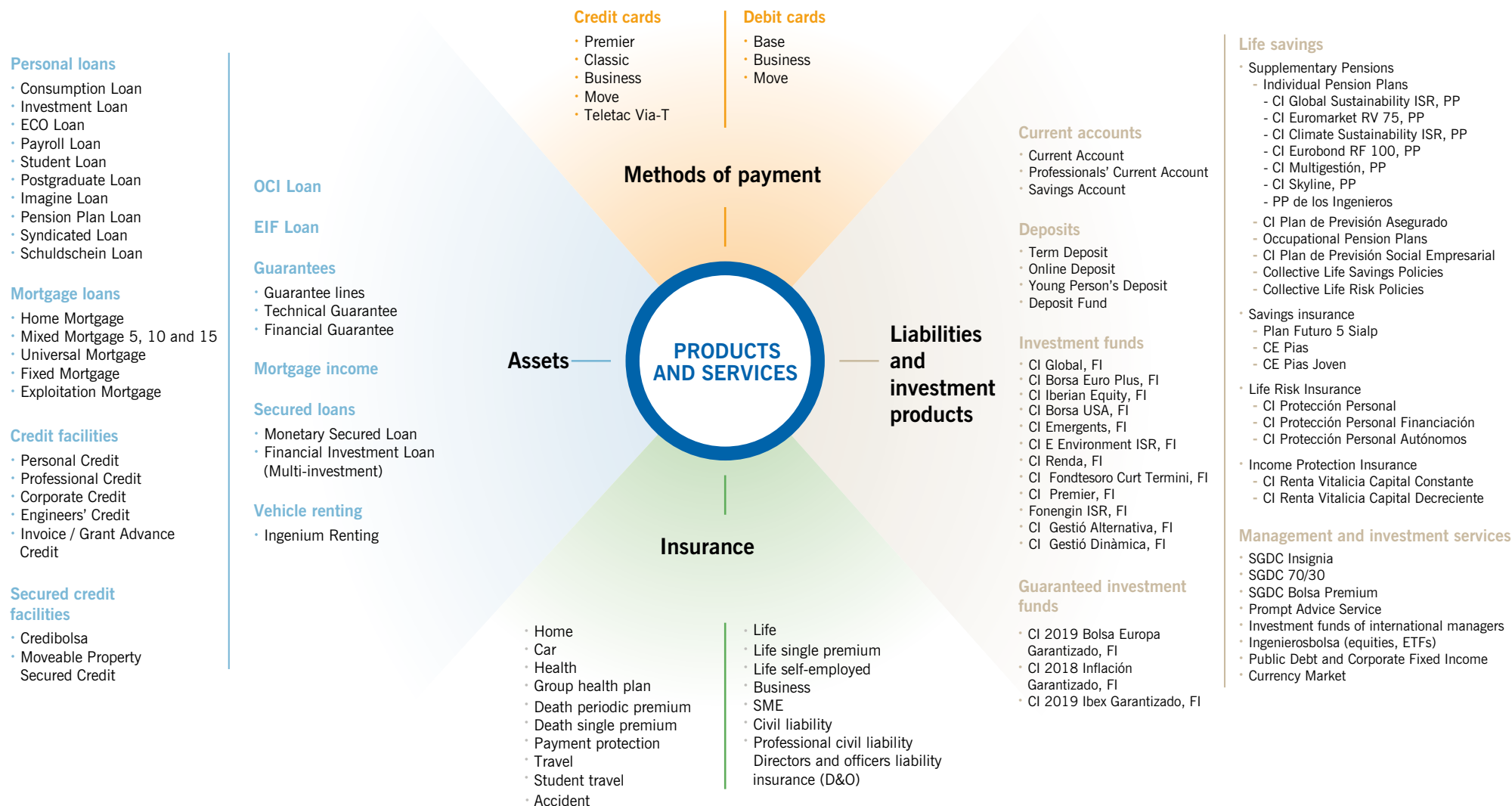
The Pension Advisory Service has its own pension advisory model that is aligned with our commitment to service and responsibility to all our members and is based on the experience and knowledge of a team of highly qualified professionals. The aim of this model,

which consists of 4 phases, is to help the members of Caja de Ingenieros Group to design their own personalized pension plan at any stage of their life.

Our commitment is to simplify the management of insurance through a global service that, in addition, allows us to obtain for the member the best price from the companies to which the risk is transferred.



6.2.6. Map of products and services



6.3. Group companies

6.3.1. Caja Ingenieros Gestión, SGIIC, SAU

Caja Ingenieros Gestión has been since the beginning of its activity an entity aware of the importance of responsible investment. Apart from the financial analysis itself, the Entity's fiduciary duty as the management company of collective investment undertakings obliges it to be liable for the investment it makes on behalf of its participants.

The investment philosophy of Caja Ingenieros Gestión is based on an independent analysis, both financial and non-financial (ESG), with a bottom-up approach and with special emphasis on the business model (sustainable) of the companies in which it invests.

Investment methodology in managed vehicles

Growth	Profitability	Stock
Stable growth in sales	Value generation: profitability	Attractive fundamental ratios
Sustainability growth in profits	positive capital costs	Wide margin of safety
Consistency in operating margins	Profitability ratios above the sector average by business model	Valuation resistant to very negative scenarios

Our investment methodology is based on the following aspects:

- Investment based on fundamentals and not on the market context
 - Focus on business models and their competitive advantages
 - Extra-financial analysis
 - Creation of portfolios following bottom-up criteria
 - Preparation of own analysis for each position
- Sectorial distribution differentiated according to the index
 - Unconcentrated weight distribution
 - Low portfolio turnover

Also, a characteristic feature of the entity's collective investment is its rigorous risk management and preservation of the capital of its members.

The programme of activities of Caja Ingenieros Gestión includes the **discretionary management of pension funds as well as investment advice to eligible counterparties**. Both activities are currently carried out by providing the corresponding services to the companies in the group.

At 2018 year-end, the assets under management exceeded 775 million euros in investment funds and pension plans. The total number of participant accounts in managed investment funds was 32,928 accounts, which represented an increase of 7.90% over the previous year and the number of investment fund participants increased 7.66% to reach a total of 18,000 participants.

Our commitment to SRI

In 2014, a further step was taken in the commitment to socially responsible investment through our adhesion to the PRI (United Nations international principles of responsible investment) with the aim of promoting the application of extra-financial criteria in traditional corporate analysis.

Currently, it is the second Spanish management company with the most assets managed in SRI investment funds and is notable for its application of the advanced management model in the integration of ESG criteria (environmental, social and governance) in the selection of companies. Proof of this is the rating obtained in the Sustainability rating promoted by the Morningstar agency in collaboration with Sustainalytics, where, at the close of the 2018 financial year, 5 of the 8 funds of Caja Ingenieros Gestión that have this qualitative rating, had the highest rating.

The cooperative values of Caja de Ingenieros Group ensure our focus is on the member and the Management company shares that vision through active and socially responsible value management.

Xavier Fàbregas - Managing Director of Caja Ingenieros Gestión SGIIC



6.3.2. Insurance and pension plan business

The insurance and pension plan business of Caja de Ingenieros Group meets all the needs in terms of pensions and protection for its members.

Its activity is structured in two companies: **Caja de Ingenieros Vida, Compañía de Seguros y Gestora de Planes de Pensiones** that creates and manages life insurance, savings and pension plans, and **Caja de Ingenieros Operador de Banca-Seguros Vinculado**, operator in general insurance mediation.

Caja de Ingenieros Vida, Compañía de Seguros y Reaseguros

It is the entity of reference in pension matters in Caja de Ingenieros Group. It provides specific products and services for complementary pensions and personal protection tailored to the individual needs of each member with a personalized service.

In addition, it manages a wide range of pension plans so that members can have solutions tailored to their risk profile and the time horizon of their retirement, offering high quality management recognized by the main international rating agencies.

In line with the commitment of Caja de Ingenieros Group to contribute to the sustainable growth of the economy, Caja Ingenieros Vida has been a pioneer in the Spanish market with the launch of pension plans managed under a Socially Responsible Investment (SRI) strategy that selects companies with the best positioning in environmental, social and good governance areas.

In 2018, the Entity continued to consolidate the sustainable growth experienced in recent years, becoming one of the 5 companies with the highest growth in premiums and provisions according to the ICEA ranking published for 2018.

1.4 (€ MILLIONS)

Net profit

+ 2.7% vs 2017

48,694

Life Insurance and Pension Contracts

+ 21.7% vs 2017

88 (€ MILLIONS)

Premium issued net of cancellations

+ 52.3% vs 2017

451.5 (€ MILLIONS)

Life Insurance and Pension Managed assets

+ 12.1% vs 2017

Caja Ingenieros Operador de Banca Seguros Vinculado, SLU

Caja de Ingenieros Operador de Banca-Seguros complements our insurance offering providing professional, business and asset insurance by providing coverage and solutions adapted to the needs of Caja de Ingenieros members at all times. The Entity carries out insurance mediation through the distribution of products from the main specialized companies in the market.

Caja de Ingenieros Operador de Banca-Seguros offers the Group's members a personalized and comprehensive advisory model, known as the Insurance Advisory Service, whose objective is to help them manage as a whole their insurable risks proposing the best solutions, guaranteeing a personalized service that also includes the periodic review of risks and coverage.

In the year 2018, the Entity increased the volume of brokered premiums by 10.8%, which represents a total portfolio of 15.7 million euros in annual premiums. Through the network of Caja de Ingenieros branches, a total of 9,583 new policies have been contracted, resulting in a volume of premiums of more than 2.5 million euros. The total number of current policies contracted by

the Group's members is around 47 thousand.

As for the distribution of the portfolio, the segment with the highest number of premiums is Life (29%) followed by Home (20%), Payment protection (14%), Health (11%) and Death (10%).

Within the Insurance Business, we develop comprehensive solutions for the Group's members in the areas of personal, family, professional and business insurance, which we offer mainly through our personalized insurance advisory service.

Francesc Durán - Caja de Ingenieros Group Insurance Business Director



6.3.3. Caja de Ingenieros Consumer and User Cooperative, (INGENIUM SHOPPING)

Ingenium Shopping, the Caja de Ingenieros Consumer and User Cooperative, was created in 2011 with the aim of offering members and their more favorable families economic conditions and advantages in establishments in a wide range of sectors.

At 2018 year-end, Ingenium Shopping had 143 affiliated establishments from very diverse sectors including the most prestigious brands that the entity considers of interest for its members. The number of purchases made during

the year in establishments affiliated to Ingenium exceeded 271 thousand transactions for an amount in excess of 11 million euros.

The sectors represented in Ingenium Shopping are: Food and Beverage, Beauty, Sports, Ski, Electronics and Appliances, Floristry and Gardening, Home, Image and Sound, Computers, Jewellery and Watchmaking, Toys, Bookstore and Stationery, Pets, Furniture and Decoration, Fashion and Accessories, Leisure and Culture, Opticians, Childcare, Restaurants, Health, Storerooms and Storage, Vehicles.

With Ingenium Shopping's exclusive offers of our members can obtain discounts and advantages in more than 140 stores, enabling the Cooperative to obtain customer loyalty.

We carry out three lines of action according to the profile of our members:

ingenium
shopping®

ingenium **shopping** particulares

ingenium **shopping** jóvenes

ingenium
shoppingpro

Ventajas y descuentos para profesionales



6.3.4. NORBOLSA, S.V.

Norbolsa, S.V. is the investment services company associated with the Caja de Ingenieros Group, in which Caja de Ingenieros owns a 10% stake.

It was founded in 1989 by the Basque Savings Banks and is specialized in brokerage and financial services with high added value: primary equity and fixed income markets, portfolio management, stock market analysis, liquidation and custody services, corporate business, services to issuers and financial advising.

Norbolsa is a leading financial adviser for the process of accessing capital markets by companies and investors and its main lines of business are; Brokerage, Liquidation and Custody of securities, management and advice of institutional portfolios, provision of corporate services to companies and operations in primary markets.

Its analysis service has more than 30 years of experience and a qualified expert team with a solid financial background.

The stake that Caja de Ingenieros has in Norbolsa is a strategic commitment, the result of many years of mutual collaboration, which allows both entities to expand their business prospects and provide specialized services with greater added value in capital markets.

*Manuel Martín-Muñoz Sainz -
General Manager of Norbolsa
S.V.*



BID	OFFER	LAST	VOL
0.495	0.50	0.495	
0.065	0.069	0.069	
0.525	0.53	0.525	
0.74	0.75	0.75	
1.855	1.89	1.86	
0.004	0.005	0.005	
0.014	0.015	0.015	
0.067	0.07	0.07	

6.4. Socioenvironmental commitment

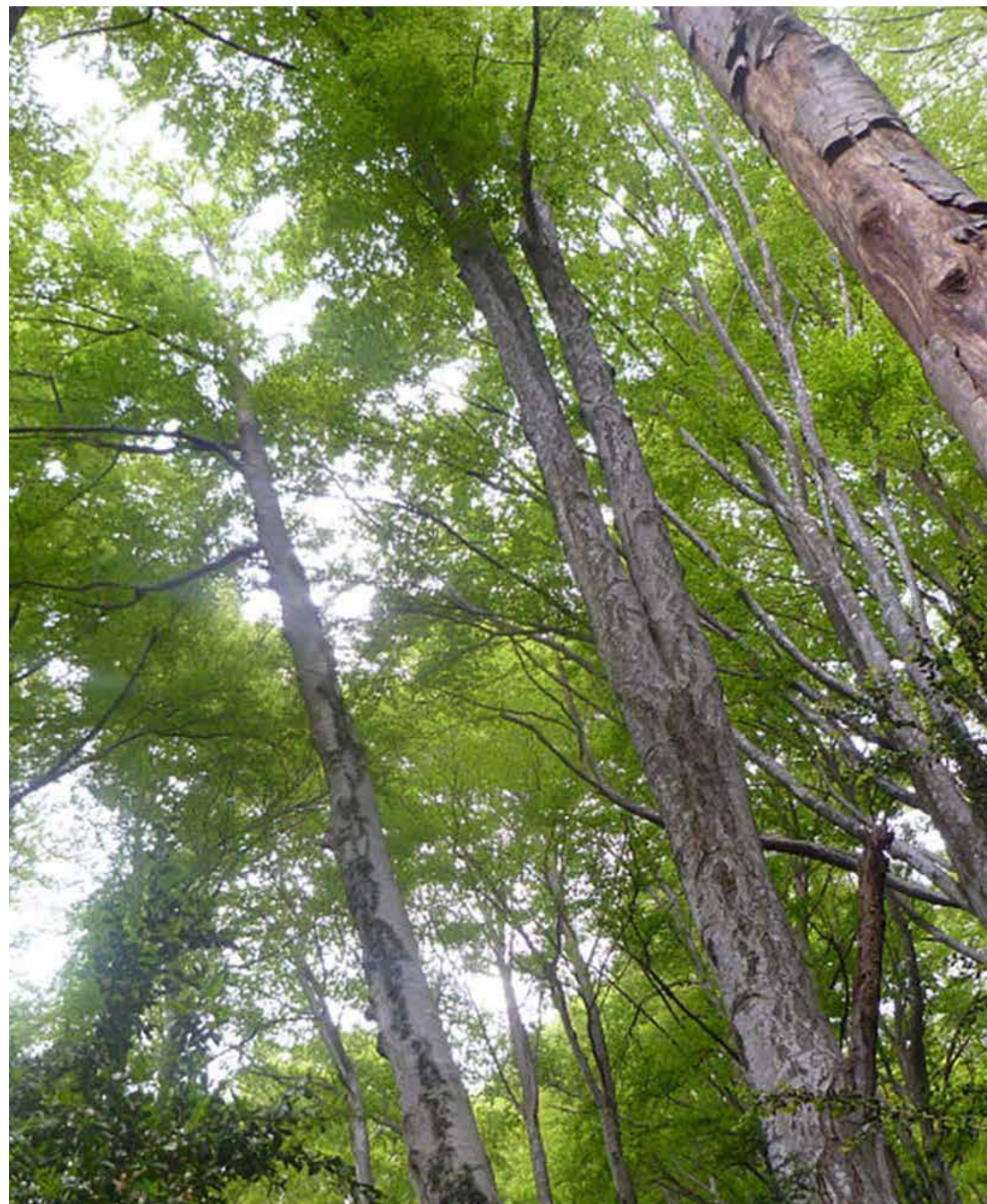
6.4.1. Education and Promotion Fund

The Entity allocates 10% of its annual net surplus to the Education and Promotion Fund, which is used for activities that benefit members and employees, and the community in general, in the fields of education, society and promotion of the cooperative movement. The fund was created in accordance with the requirements of Law 13/1989 of 26 May concerning Credit Societies, partially amended by Law 20/1990 of 19 December concerning the Tax Regime of Cooperatives.

Its purpose is the funding of activities with the following aims:

- Training and education of members and employees in cooperative principles and values or in specific areas that contribute to business activities.
- Publicizing cooperatives and fostering inter-cooperative relations.
- Cultural, professional and social welfare promotion of the local environment and community in general, as well as improving quality of life, community development and environmental protection actions.

Thousands of euros	2018	2019
	Application	Budget
Item		
Member and employee training	158	375
Promotion of inter-cooperative relations	16	35
Cultural promotion of the environment - Foundation	450	450
Total	624	860



6.4.2. Corporate Social Responsibility

Our Principles of Social Responsibility

Caja de Ingenieros follows a cooperative banking model aimed at obtaining the highest returns for its members through the development of transparent, responsible and fair products and services, always following criteria of prudence, ethics and integrity in the management and governance of the organization.

Our responsibility model revolves around the following cornerstones:

Prudence and risk management

Our risk management model is based on sustainability, management quality, responsibility, monitoring, commitment and independence.

Ethics and integrity

Our activity is governed by the values, principles and rules of action contained in our code of ethics, which promotes the carrying out of professional tasks with criteria of honesty, integrity, excellence, responsibility and transparency. Responsible, sustainable and socially effective investment

Responsible investment and financing

Our financing and investment policy integrates criteria on human, labour and social rights and respect for the environment. Our investments exclude manufacturers of weapons, explosives or military vehicles, manufacturers of specific components for the military industry (> 10% of income), tobacco manufacturers, and gambling companies.

Service to members

Our cooperative and socially responsible model puts the member at the heart of our activity. We aim to provide our members with complete solutions adapted to their needs and based on quality of service, customer service, advice and proximity.

CSR Caja de Ingenieros

HR policy

- We are quality employers and one of our main commitments is the training and development of our staff.
- Offering equal opportunities is one of the principles of the organization and we work to ensure it at all levels.

Sustainability and the environment

- We engage in Socially Responsible Investment (SRI), which promotes the sustainability of the economy and helps protect the environment.
- We promote initiatives to improve the eco-efficiency of the organization. Since 2018, we have been a carbon neutral organization, since we offset our activity's carbon footprint.
- We preserve the environment through actions to raise awareness and mitigate the effects of climate change.

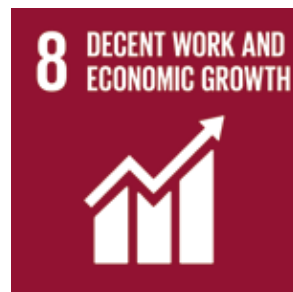
Social projects

We channel our commitment to society through the Caja de Ingenieros Foundation, which allocates its resources to improve quality of life and well-being, facilitate the social and labour reintegration of people, protect the natural environment and encourage innovation, training and professional excellence.

Committed to sustainable development

As a cooperative entity and bank with values, Caja de Ingenieros has adhered to the United Nations Global Compact, with the aim of contributing to the achievement of the Sustainable Development Goals (SDG), faithful in its commitment to sustainability, economic development and society.

Among the 17 SDGs aimed at eradicating poverty, protecting the planet and ensuring prosperity, Caja de Ingenieros has defined the following as priorities:



Commitment to economic development and society

- Promote the growth of SMEs through access to financial services, as well as entrepreneurship and micro-enterprises.
- Achieve full, productive and dignified employment for all women and men, including young people and people with disabilities, as well as equal pay for work of equal value.



Commitment to the environment and sustainability

- Support and finance projects linked to the environment and sustainability that have a positive impact on preventing climate change.
- Improve education, awareness and the human and institutional capacity to mitigate climate change, adapt to it, reduce and detect its effects.
- Include measures related to climate change in corporate policies and strategies.



Commitment to innovation and industry

- Help SMEs access financial services to promote an inclusive and sustainable industrialization.
- Significantly increase the contribution of industry to employment and gross domestic product

In addition, and given that Caja de Ingenieros allocates 10% of its profits to the Education and Promotion Fund, whose objective is the carrying out of activities that benefit the member and social projects in general, we contribute to the following SDGs:



OUR SOCIALLY RESPONSIBLE AND EFFECTIVE INVESTMENT

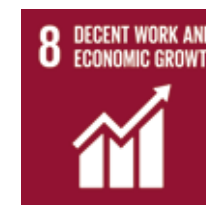
We have a portfolio of sustainable and responsible financial solutions that allowed us to mobilize 242 million euros in 2018:

- **CI Environment SRI, IF**, is the first CO₂ fund in Spain with the clear purpose of promoting the fight against climate change through investment in companies.
- **Fonengin ISR, IF**, the first socially responsible investment fund in Spain and has the highest distinction in the sustainability ranking granted by Morningstar.
- **CI Climate Sustainability SRI, PP**, is the first climate-related pension plan in Spain in which up to 50% of the intervening companies are leaders in innovation and the fight against climate change.
- **CI Global Sustainability ISR, PP**, invests up to 30% in equity assets, selecting international companies included in indices that use extra-financial criteria (ethical, social, environmental and corporate social responsibility).
- **ECO Loan** offers financing to improve the energy efficiency of homes and premises (thermal insulators, heating, low consumption lighting, renewable energy sources, etc.) or purchase ecological vehicles or energy class A or higher appliances.



+81%

of our investment is tied up in companies that take urgent measures against climate change.



+68%

of our investment is tied up in companies that promote inclusive employment, economic growth, full employment and decent work.



54%

of the investment is tied up in companies that are committed to guaranteeing access to affordable, reliable, sustainable and modern energy for all.

Signatory of:



6.4.3 Caja de Ingenieros Foundation

The Caja de Ingenieros Foundation is a private, non-profit organization, which was founded with the aim of developing the Entity's social commitment and managing the resources that it allocates to the promotion and execution of several activities that foster a fairer and more cohesive society.

The main lines of action of the Fundación are as follows:

Environment and sustainability

The preservation of the environment and sustainability are priorities for the Group. We work to raise awareness about the importance of taking care of the planet and to look for solutions and alternatives that contribute to mitigating the effects of climate change.

Workplace reintegration and social projects

We support the integration activities of people at risk of exclusion and those activities that benefit the whole of society.

Education, professional excellence and engineering.

We promote academic training, through endowments for scholarships and awards, and professional development. Likewise, we encourage research activities that contribute to improving the work and business world, as well as the promotion of engineering.



The value of every euro that the Foundation allocates to social projects is multiplied by 3.5.

We continue with our objective and commitment to maximize and increase the social impact of the investment that the Foundation allocates to social, environmental and educational projects. The projects and partnerships that during 2018 were added to those carried out previously have multiplied the overall impact and social value generated by 3.5.

€4,000,000

destined to partnerships and projects

400

projects and partnerships carried out

220,000

people who benefit from our partnerships in social projects

1,982

people have received scholarships and training

840

start ups have participated in our initiatives to promote and reward entrepreneurship

*Data accumulated from 2011 to 2018

Foundation awards and programmes

In 2018 the Foundation carried out the following activities of its own:

- 6th Entrepreneurship Award

The aim is to reward the talent and professional excellence of companies that are emerging in our society in order to boost their business and thus help in their development, in the fields of Science, Technology, Innovation and Sustainability. A total of 84 start ups put themselves forward for the 6th edition.

- 1st Isabel P. Trabal Innovative Ideas Award

The aim is to promote the transformation of business ideas into real companies. The call is aimed at promoting and developing projects in the start-up phase related to science, technology, innovation and sustainability. A total of 124 ideas were presented in this first edition.

- Foundation training courses.

Promote workplace reintegration of members who are unemployed and help young people to enter the labour market. More than 2,000 members have participated in more than 40 sessions that we have organized since its inception.



6.4.4 Financial Education

Workshops and lectures for members

In order to provide maximum information and transparency to member, we carried out a series of public events in different parts of the Spain, basically in two types of format: workshops for small groups, with a maximum of 70 members, and meetings for larger groups, of up to 200 people.

Workshops were carried out in 2018 where our specialists (in markets, investment funds, planning...) brought the products and services offered by Caja de Ingenieros to the public in a direct and practical way. In addition, large conferences were held in Barcelona and Madrid, where specialists from the financial and insurance world explained in detail the latest issues related to our turnover.

Financial education

The more information and financial education available to society in general, and our members in particular, the better for everyone. We feel responsible for promoting this education and for this reason we promote the development of activities and the publication of communication materials, aimed at members to improve their financial knowledge.

Some examples of this are, on the one hand, the forthcoming publication of a new "Finance and Insurance Notebook", related to planning for the future. Moreover, we have been participating for several years in the EFEC project of the Institut d'Estudis Financers, where volunteers from different entities, of which we are one, provide financial education to 4th year Secondary School students in more than 350 public and private schools in Catalonia. Another example is our collaboration, through the Caja de Ingenieros Foundation, in the

ODF project (Financial Dissemination Observatory), where financial specialists and insurers have published 10 techniques and documents on subjects as specific as "Ethical principles in the financial world" or "The financial crisis 2007-2017". Two informative events were also organized at the Barcelona Stock Exchange, which were attended by 400 people.



07

Risk management



Risk management

7.1. Introduction

Changes in the financial sector in recent years have highlighted the crucial importance for financial entities to properly manage their risks. For Caja de Ingenieros Group, risk management is an essential cornerstone of its competitive strategy, with the goal of preserving its solvency levels and, in turn, driving business development.

The risk profile of Caja de Ingenieros Group is mainly characterized by the prudent management of credit risk based on a rigorous lending process. It also maintains a comfortable capital and liquidity position, and a proper balance in the management of interest rate risk.

In a macroeconomic environment that poses significant challenges, particularly due to the negative interest rate situation, it is important to highlight the benefits of Caja de Ingenieros Group's business model for supporting future profitability. Caja de Ingenieros has maintained steady and consistent growth, prioritizing service quality, diversification of sources of income and prudence in risk taking.

The Entity's Governing Board establishes the risk management framework of the Group's operations through the definition of internal control policies, systems and procedures, and monitoring of compliance with them. The coordination of these prudent policies and the use of uniform and effective management and control methods and techniques enables Caja de Ingenieros Group to obtain recurring and sustainable results, and to enjoy a comfortable solvency position.

The identification, measurement, management, control and monitoring of the risks inherent to the Group's operations are fundamental goals, always within a framework of optimization of global risk management, mainly covering credit and counterparty risk, structural interest rate and liquidity risk, market risk, operational risk, compliance and money laundering risks and reputational risk.

7.2. General principles

The Governing Board states in the Risk Management Policy that the Risk Management System requires the application of principles that facilitate effective risk management, with the following considered fundamental:

- **Sustainability.** The Caja de Ingenieros Group's mission is to provide sustainable value to its members and said sustainability must be based on risk management policies and good practices.
- **Quality in management.** Risk is inherent to Caja de Ingenieros Group's business and, consequently, professionalized and robust risk management must be established throughout the organization.
- **Responsibility.** The ultimate responsibility for risk management rests with the Governing Board. The general manager of Caja de Ingenieros is responsible for the implementation of risk management.
- **Monitoring.** Caja de Ingenieros Group must define the acceptable risk threshold and carry out the monitoring of its risk profile in relation to the defined risk threshold. The risks assumed must be identified and mechanisms for their measurement and monitoring must exist.
- **Commitment.** Risk management requires the involvement of the entire organization. The Group promotes a risk culture by transferring risk management criteria to different levels of the organization through internal communication mechanisms, including training and regulations.
- **Independence.** The role of risk management and control must be independent from the commercial function and business areas.

7.3. Risk management system

Caja de Ingenieros Group has established a Risk Management System that consists of the following aspects:

- **A system of governance and organization of the risk function that has an adequate definition of roles and responsibilities**, committees and delegation structures, a model of three lines of defence and an internal control system consistent with the nature and magnitude of the risks.
- **A Risk Appetite Framework**, incorporated into the Risk Management Policy and approved by the Governing Board, which determines the nature and degree of risk that the Group is willing to assume in order to achieve its business goals.
- **A management model that includes self-assessment** and comprehensive monitoring of risk, risk and solvency planning, internal and public communication, and a regulatory body that regulates risk management.
- **An adequate allocation of human and technological resources** for effective management and supervision of the model.

7.4. Risk appetite framework

The Risk Appetite Framework is the global framework through which risk appetite is set, communicated and monitored, and which requires policies, procedures, systems and controls. It explicitly defines the limits to which the Entity's managers can operate. Caja de Ingenieros Group's Risk Appetite Framework has the following characteristics:

- Alignment with the mission, vision, values and strategic principles of Caja de Ingenieros.
- Alignment with the strategic and business plan.
- Search for a low to medium risk profile.
- Clear, concise, forward looking and manageable formulation.
- Explicit definition of the limits to which managers can operate.
- Maintenance of a reasonable excess of capital and liquidity.

7.5. Credit and counterparty risk

Credit risk refers to losses that the Group would suffer if debtors, either members or other counterparties, fail to fulfil their contractual obligations. That is to say, it is risk associated with non-payment by the customer of credit, loan or guarantee transactions, as regards traditional financial products, or by the counterparty or issuer of other financial assets such as those included in the fixed income portfolio.

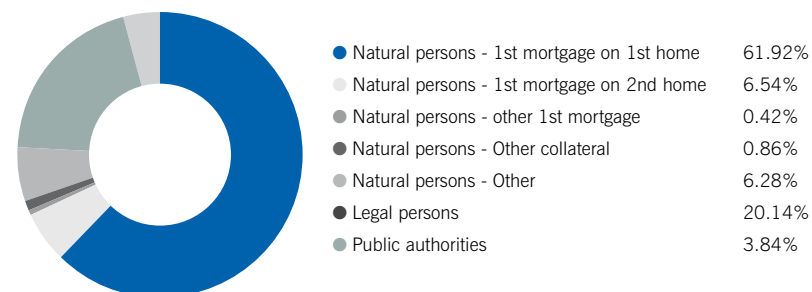
In accordance with current solvency regulations, credit risk is covered by the existence and control of certain own funds capable of absorbing the risks assumed, as well as the establishment of provisions intended to cover insolvencies. These hedges are separated into specific hedges for doubtful risks, whose purpose is to cover exposures with defaults or doubts in relation to full repayment, and normal risk hedges. Normal risk hedges are classified as generic normal risk hedges and normal risk hedges in special surveillance, the latter referring to hedges for transactions that have solvency weaknesses, but do not raise doubts about full repayment.

It should be noted that the Group's entire lending portfolio is highly collateralized, which contributes to improving its management ratios. As of the end of the 2018 financial year, 77.84% of lending to customers was collateralized, thus maintaining our high historical levels of collateral.

Following the line of diversification and collateralization in the granting of loans with mortgage collateral typical of the Entity, it should be noted that, in 2018, 962 transactions (819 in 2017) were granted for an average amount of 183 thousand euros (179 thousand euros in 2017) and an average Loan to Value of 62.38% (64.39% in 2017), taking as a reference for calculation appropriately updated appraisals in the 2018.

As of 31 December 2018, Caja de Ingenieros' default rate stood at 2.77%, substantially below the default level of the sector, which stood at 5.84%.

**BREAKDOWN OF LENDING TO CUSTOMERS BY
TYPE OF GUARANTEE AND BORROWER**



At the end of the 2018 financial year, the Group's total provisions for the coverage of customers' bad debts and debt securities was 28.406 million euros, of which 2.694 million euros related to generic normal risk provisions, 4.260 million euros to provisions of normal risk in special surveillance and 21.452 million euros to specific provisions for doubtful assets.

Total provisions related to the lending portfolio held as of 31 December 2018, which amounted to 27.428 million euros, represented a coverage ratio of 57.93%, significant given the solid guarantees of the loan portfolio.

In addition, interbank transactions, fixed income, derivatives and other financial instruments were also exposed to credit risk. The Group has a Financial Investment Policy which establishes a system of limits, according to risk profile, and enables concentrations of credit risk to be avoided. Most portfolio investments are in assets with a good credit rating and, above all, about half of the investments are in Spanish public debt.

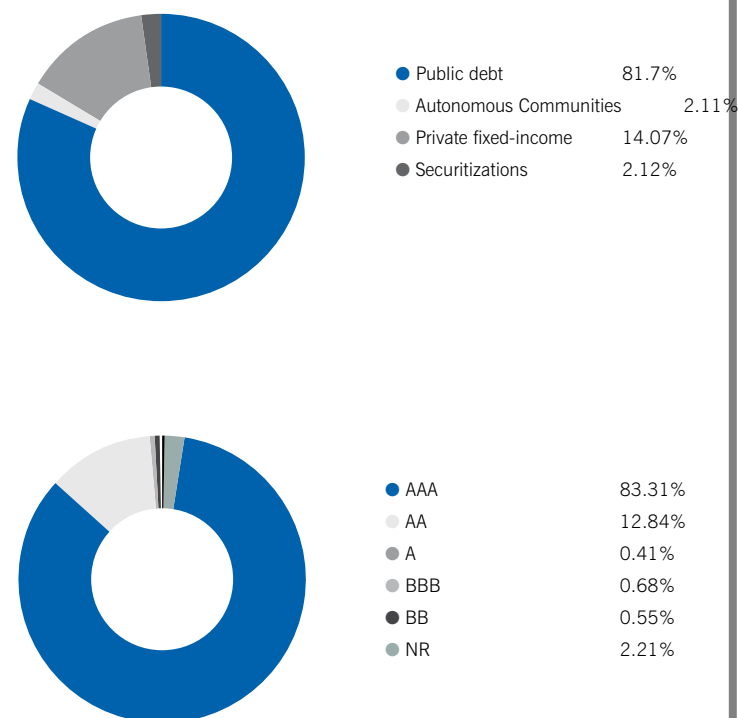
Below is a breakdown of the financial investment portfolio of the consolidated Group by prudential level, excluding the trading portfolio, as of 31 December 2018, according to the different rating levels and type of debt:

Credit risk includes **counterparty risk**, which is the risk that counterparties incur in non-compliance with the Group prior to final settlement of transactions with derivative instruments, repurchase transactions, securities lending transactions, deferred settlement transactions and collateral financing transactions.

Caja de Ingenieros reviews compliance with counterparty limits in the Interbank Market, simultaneous transactions and derivative transactions, as well as issuer credit rating limits in the Fixed Income market. Monitoring of and compliance with the limits structure make it possible to avoid concentrations of risk that may affect the Entity's own funds.

It should be noted that the counterparty risk assumed by the Group is highly insignificant in relation to total credit risk.

BREAKDOWN OF THE INVESTMENT PORTFOLIO



In addition, credit concentration risk, which is associated with the possibility of significant losses as a consequence of the concentration of risk in a small group of creditors, in a group of creditors with similar behaviour or in financial assets that are particularly correlated, is an essential element in the management of credit risk.

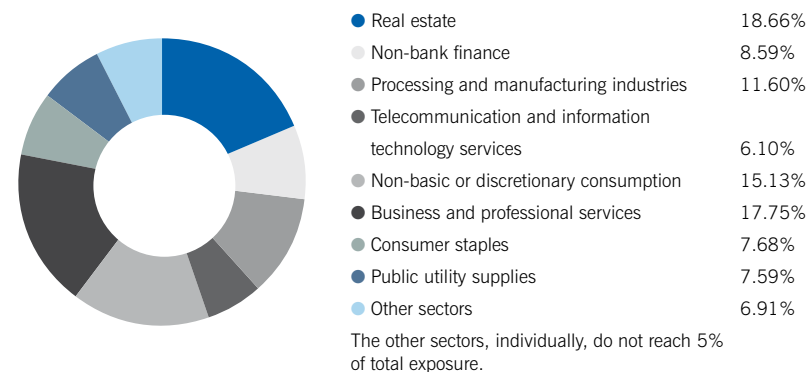
In order to limit sectoral concentration, Caja de Ingenieros has adopted a two-fold approach: a policy of prudent lending, which results in a portfolio of high-quality and well diversified lending; and a Group-wide financial investment policy, which establishes prudent limits on all investments in each economic sector.

The breakdown of exposure to credit risk shows an adequate level of sector diversification, with the most significant weights corresponding to the following economic activities: property, 18.66%; business and professional services, 17.75%; non-basic or discretionary consumption, 15.13%; manufacturing and processing industries, 11.60%; non-bank finance, 8.59%; consumer staples, 7.68%; public utility supplies, 7.59%; and telecommunication and information technology services, 6.10%.

In addition, the aforementioned credit granting and financial investment policies establish limits of amount and hierarchy in decision-making that enable individual or corporate group concentration to be controlled.

In accordance with EU Regulation 575/2013, all risks that an entity contracts with a single physical or legal counterparty or economic group, public or private, are considered as major risks if their aggregate value exceeds 10% of the Group's own funds.

SECTORAL CONCENTRATION



Regarding the Group's fixed-income securities portfolios, these are well diversified and are distributed among 69 issuing groups with good credit ratings.

7.6. Structural interest rate risk

Structural interest rate risk is the possibility of losses due to the potential impact of changes in interest rates on the Entity's profits or net value of its assets. The interest rate risk of the trading portfolio is excluded.

The ALM Committee analyses coverage requirements resulting from the management of assets and liabilities and makes the necessary investment decisions always in accordance with the contracting limits established for the Group. Caja de Ingenieros uses the Ambit Focus ALM tool for assessing its exposure to interest rate risk, and this enables it to analyse, at a static level, maturity or repricing gaps between assets and liabilities, sensitivity or economic value and, at a dynamic level, simulation of financial margin and future economic value, as well as its sensitivity to variations in interest rates.

Structural balance sheet interest rate risk, measured in terms of the gap between assets and liabilities distributed by maturity or repricing, allows the detection of concentrations of interest rate risk in the different periods.

As of 31 December 2018, the sensitivity of the Entity's economic value to a parallel movement of the interest rate curve of -200 basis points stood at 0.69%, significantly lower than the regulatory limit of 20%¹.

Simulation of the one-year financial margin, considering maintenance of the balance sheet structure, shows a sensitivity to parallel movements of interest rate curves of -200 basis points of 0.85% (5.97% in a rate increase scenario)¹.

These figures suggest that interest rate changes would have a low adverse impact on economic value, minimum own funds and financial margin.

¹ As established in Circular 3/2008 of the Bank of Spain, in Standard 106.3.a) and in the Technical Applications of Regulatory Reporting that establish a floor of 0% with the following criteria:

- The initial curve will remain at its observed levels, although it will be negative in some section of the curve.
- The downward displacement of the curve will not imply the application of the floor at 0% for negative rates.
- The 0% floor does not apply in the scenarios of rate increases.

7.7. Structural liquidity risk

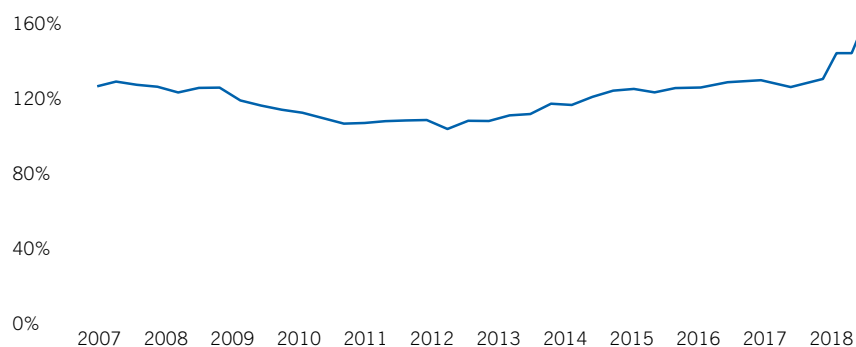
Liquidity risk signifies possible losses to the Group in the event of a situation where it is impossible to obtain reasonably priced funds to promptly fulfil payment obligations, either for the reimbursement of funds or utilization of available credit transactions by customers or the settlement of market transactions.

The Group's liquidity management policies are aimed at securing the funds required to meet business needs, diversifying funding sources and minimizing their cost. The Group, through Caja de Ingenieros, monitors its liquidity position and financing strategies on an ongoing basis. In addition, it has a Liquidity Contingency Plan that allows management of possible unexpected events caused by economic or market conditions, or other situations outside the direct control of Caja de Ingenieros which could cause liquidity difficulties in the short or long term.

It should be noted that Caja de Ingenieros Group has historically maintained a favourable structural liquidity ratio (defined as the quotient between customer deposits and credit), which, as of 31 December 2018, stood at 157.75%.

From the report to the European Central Bank of the COREP statements, monitoring of Caja de Ingenieros' liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) was carried out. The LCR seeks to ensure that the Entity has sufficient high-quality liquid assets to meet the cash outflows that would occur during a one month long situation of acute stress; for its part, the NSFR determines the resistance capacity over a period on one year, measuring the proportion of stable funds over the assets that require financing. Both ratios remained at high levels during the financial year. Specifically, as of 31 December 2018, the LCR ratio stood at 276% (the regulatory requirement is 100%) and the NSFR ratio was estimated at 153% (the regulatory requirement will be 100% from the approval of the modifications to the Capital Requirements Regulations and their application).

EVOLUTION OF THE STRUCTURAL LIQUIDITY RATIO



7.8. Market risk

Market risk is the risk associated with the possibility of losses in trading portfolio positions caused by adverse movements in market variables.

For the management of market risk, in addition to measures of duration, convexity and sensitivity, a triple limit structure is applied daily. First, different scenarios are calculated to estimate potential trading portfolio losses in the event of situations of severe stress in the financial system. Second, the portfolio's one-day Value at Risk (VaR) is obtained using Monte Carlo simulations and a confidence interval of 99%. Finally, on a daily basis, the trading portfolio's market risk capital consumption is determined to check, as in the other cases, whether it meets the limit established by the Governing Board. In addition, the trading portfolio is included in the monitoring of counterparty risk limits valid for the Group's financial investments.

As well as measuring VaR, conditional VaR (or TailVaR), which measures the average loss that would occur in cases where the VaR level was exceeded, and the ComponentVaR, which measures the contribution of a sub-portfolio to the total VaR of the portfolio, are calculated.

TRADING PORTFOLIO

Asset type	VaR	Conditional VaR	Component VaR
Total	362.97	455.24	
Fixed income	329.06	418.20	193.85
Equities	8.34	10.43	161.55
Investment funds	8.34	10.43	7.57
Sum of VaR and Conditional VaR	515.82	655.10	
Diversification effect	152.85	199.86	

VaR calculated with a confidence interval of 99% and time horizon of one day. Annualized results.
In thousands of euros.

7.9. Operational risk

Operational risk is defined as all events that could cause losses as a result of inadequate internal processes, human error, malfunctioning of information systems or external events. This risk is inherent to the daily operation of every entity, so it must be monitored closely in all areas.

This definition includes legal risk, but excludes strategic risk and image or reputational risk.

Legal risk includes the possibility of being penalized, fined or required to pay punitive damages as a result of actions of the supervisor or private agreements between parties.

The organizational model adopted by Caja de Ingenieros Group is based on a Three Lines of Defence model that distinguishes between (1) the functions that own the risks and manage them, (2) the functions that control the risks and (3) the functions that provide independent assurance.

Regarding operational risk, the organizational model adopted by Caja de Ingenieros Group based on the Three Lines of Defence identifies the following pillars or levels of independent responsibility:

- **Business and Support Functions::** these are responsible for identifying, assessing, managing, controlling and reporting the operational risks associated with their activities.
- **Operational Risk Function:** responsible for defining the methodology and solutions for correct identification, measurement, control and management of the Group's operational risk and controlling correct deployment. It supports the Business and Support Functions and consolidates the information on the operational risks of the entire Group for reporting to the Global Risk Management Department and the risk management committees involved.
- **Internal Audit Function:** in relation to operational risk, this is the area responsible for reviewing compliance with the established operational risk identification, measurement, control and management model.

The Operational Risk Function analyses, informs and advises the Business and Support Functions on the best way to assess operational risk.

Daily management of operational risk falls to the different areas and departments of the Entity, which maintain lines of communication with the Operational Risk Function. This works with them in order to obtain information and implement risk management actions. To ensure correct interaction between the Operational Risk Function and the aforementioned areas and departments, the role of Process Expert has been defined within them.

In addition, it should be noted that the Entity has a comprehensive banking insurance policy that essentially covers losses that could occur as a result of events related to operational risks (computer fraud, employee infidelity, etc.).

7.10. Reputational risk

Reputational risk is the possibility of the Group sustaining damage as a result of negative information or publicity, whether true or not, about its business practices, which could affect its customer base, litigation costs or income. It is associated with the repercussions that the Group could suffer as a result of being discredited or losing the trust of its current and potential customers.

Reputational risk is particularly linked to the compliance function, given the strong reputational impact of receiving financial penalties or other disciplinary action by supervisory bodies. It also includes conduct risk, which seeks to measure and manage the risk of harm to members and the integrity of the market.

Especially important is the proper management of the following aspects:

- **Marketing of complex financial products.** The Entity has specific policies for the design and launch of new products.
- **Actions related to money laundering.** The Entity has a Governing-Board approved money laundering and terrorism financing prevention policy which includes measures to prevent and/or detect and report suspicious transactions related to money laundering and/or the financing of terrorism.

- **Transparency with customers in relation to banking transactions.** The Entity has a Member/Customer Service Department that deals with complaints and/or claims made by users of its banking services. It has the necessary independence to make decisions and has operating rules that describe its functions and responsibilities. There is also a Banking Ombudsman, external to the Entity itself, to which users of the Entity's banking services can make complaints and/or claims. It should be noted that official and supervisory bodies deal with very few complaints and/or claims regarding the Entity.

7.11. Solvency

The Group's low default rate, high collateralization of credit, strength of provisions and reduced exposure to other risks, together with an adequate structure of own funds, translate into a high degree of solvency.

The total capital ratio, at the end of the 2018 financial year, was 14.24% (13.37% not including results attributable to reserves), substantially above the legally required minimum.

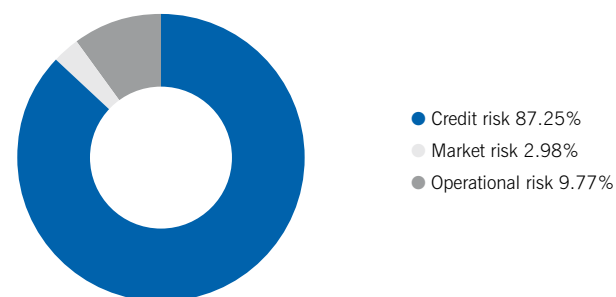
The total capital ratio measures the ratio of capital requirements to own funds and, in accordance with Regulation (EU) No. 575/2013 on prudential requirements of credit entities and investment firms (CRR) and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV), and with Pilar 1, the total capital ratio must be higher than 9.875%.

In addition, with respect to the 8% minimum capital ratio, the consolidated total capital surplus at the end of 2018 stood at 66 million euros.

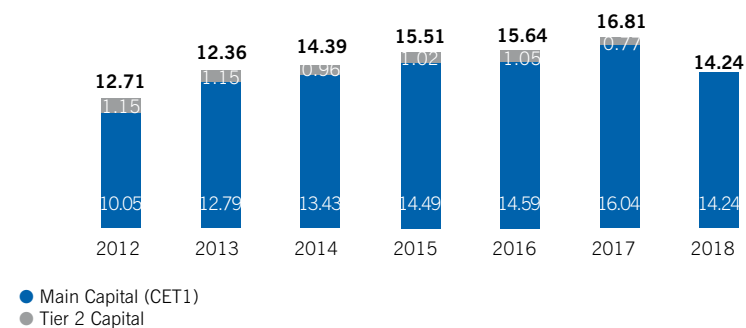
The Common Equity Tier 1 (CET1) of Caja de Ingenieros Group at the end of 2018 amounted to 151.564 million euros, a ratio of 14.24% (13.37%, not including results attributable to reserves), with a capital surplus with respect to the CET1 required minimum of 4.5% of 104 million euros.

Given that the Caja de Ingenieros Group chose not to apply the transitory adjustments for the mitigation of the impact of IFRS 9 on capital, included in Regulation (EU) 575/2013, regarding the transitional provisions to mitigate the impact of IFRS9 on own funds, there is no difference between the fully loaded ratio and the phased-in ratio, so that, with respect to the minimum regulatory fully-loaded CET1 of 7% for Pillar 1, which includes a 2.5% capital conservation buffer, the capital surplus amounted to 77 million euros.

CAPITAL REQUIREMENTS BY TYPE OF RISK



CONSOLIDATED SOLVENCY RATIO



08

Financial report



During the 2018 financial year, in an environment characterized by growing capital needs, stemming from strong regulatory requirements, in which interest rates continued to be at record lows and the situation of financial markets was adverse, especially in the last quarter of the year, the Group's main indicators remained positive and turnover increased.

8.1 Activity report

8.1.1 Assets

The total **assets** of the Group, as of 31 December 2018, stood at €3,277,111,000, which represented an increase of 15.31% in relative terms and €428,428,000 in absolute terms compared to the end of the 2017 financial year. This increase responds, on the one hand, to an increase in debt securities by €62,497,000 (37.13%, in relative terms) and, on the other hand, to an increase in customer loans of €63,139,000 (3.89%, in relative terms).

Debt securities

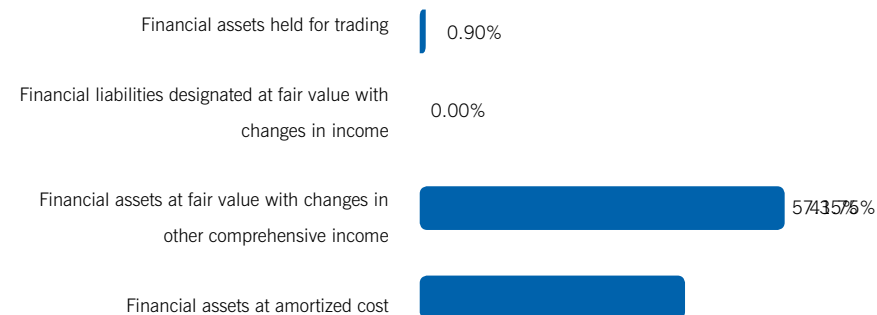
Investments in **debt securities**, which are part of the "financial assets held for trading", "financial assets designated at fair value with changes in income", "financial assets at fair value with changes in other comprehensive income" and "Financial assets at amortized cost" portfolios, went from €76,258 000 to €1,338,755,000, as of 31 December 2017 and 2018, respectively, representing an increase of €62,497,000 (37.13%, in relative terms). These positions include, mainly, sovereign debt bonds (mostly Spanish).

The following graph shows the distribution of investments in debt securities, by portfolio type, as of 31 December 2018:

EVOLUTION OF ASSETS (IN MILLIONS OF EUROS)



BREAKDOWN OF INVESTMENTS BY PORTFOLIO TYPE (%)



Customer lending

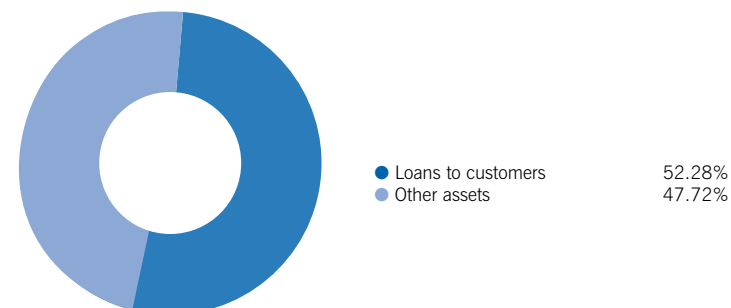
Loans to customers, recorded in the of "financial assets at amortized cost" portfolio, increased by 3.89%, in relative terms, compared to the previous year, reaching €1,687,225,000, at the end of the 2018 financial year.

EVOLUTION OF LENDING TO CUSTOMERS (IN MILLIONS OF EUROS)



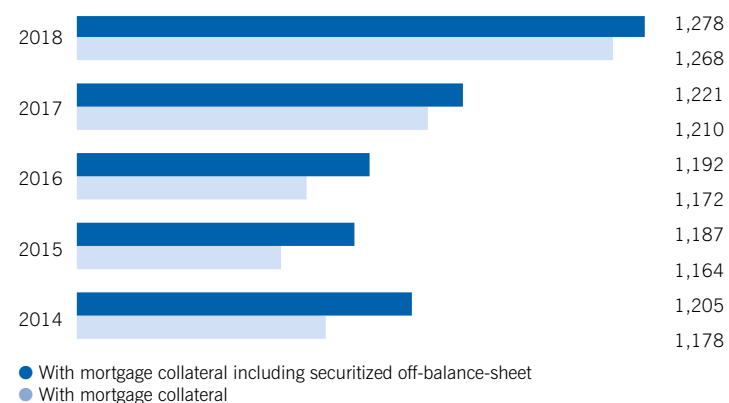
Loans to customers as of 31 December 2018, represented 74.85% of the "financial assets at amortized cost" portfolio and 52.28% of total assets.

LOAN TO CUSTOMERS AND OTHER ASSETS WITH RESPECT TO TOTAL ASSETS (%)



Within lending to customers, lending with mortgage collateral rose to €1,268,252,000, as of 31 December 2018, which represented 75.17% of the total lending to customers and 39.30% of total assets as of that date.

EVOLUTION OF LENDING TO CUSTOMERS WITH MORTGAGE COLLATERAL (IN MILLIONS OF EUROS)

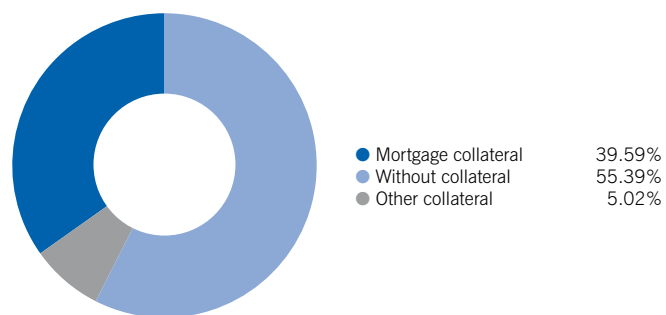


For its part, the number of loan transactions with mortgage collateral formalized during the 2018 financial year amounted to 962, with the total amount of new financing granted standing at €76,185,000.

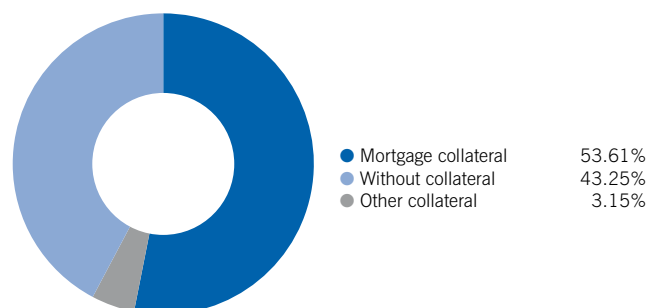
It should also be noted that lending **without mortgage collateral** increased by 11.76%, reaching €15,773,000 at the close of 2018, compared to €28,550,000 at the end of the previous financial year. For its part, the number of loan transactions without mortgage collateral formalized during the 2018 financial year amounted to 1,346, with the total amount of new financing granted standing at €42,131,000.

Finally, total financing granted amounted to €28,664,000 corresponding to 2,430 transactions.

BREAKDOWN OF THE NUMBER OF LOANS AND CREDIT TRANSACTIONS (%)



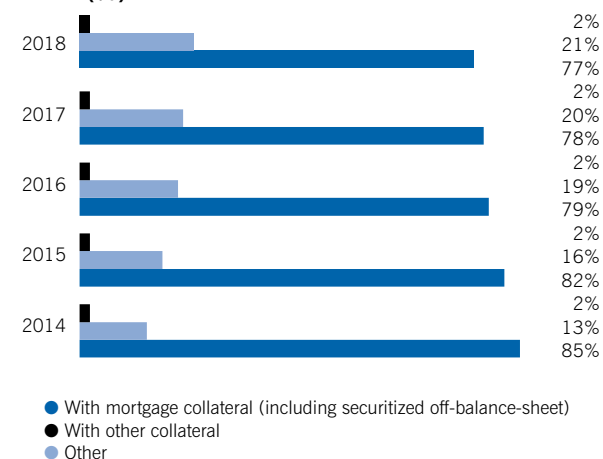
BREAKDOWN OF THE VALUE OF LOANS AND CREDIT TRANSACTIONS (%)



With reference to the evolution of the **breakdown of lending to customers**, the maintenance of good quality loans and support, to a large extent thanks to mortgage collateral, is worth noting.

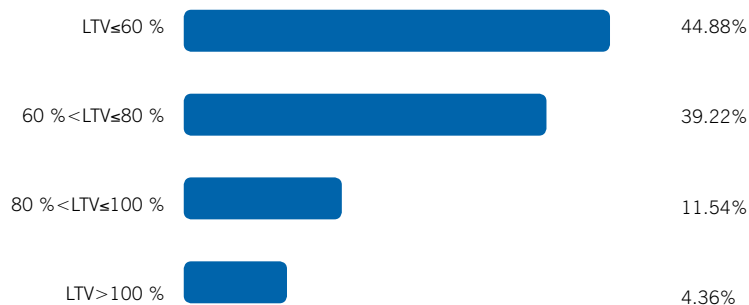
The following chart shows the breakdown of the guarantees that support loans to customers with normal risk and normal risk in special surveillance.

EVOLUTION OF THE BREAKDOWN OF LENDING TO CUSTOMERS WITH NORMAL RISK AND NORMAL RISK IN SPECIAL SURVEILLANCE BY TYPE OF GUARANTEE (%)



Lending with mortgage collateral to households for the purchase of homes represented 79.02% of lending with mortgage collateral. 84.10% of this lending had a Loan to Value (LTV) lower than or equal to 80%, taking as a reference for calculation appropriately updated appraisals on 31 December 2018, according to the breakdown by LTV shown below.

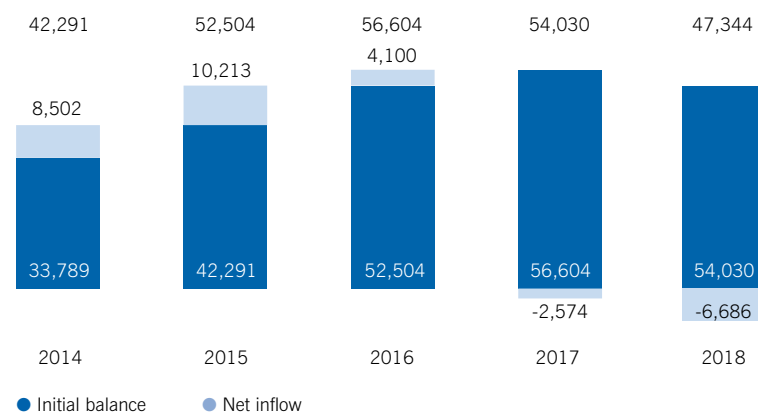
LTV BREAKDOWN OF MORTGAGE LENDING TO HOUSEHOLDS FOR HOME PURCHASES (%)



In addition, refinancing and restructuring transactions at the end of the 2018 financial year stood at €5,424,000 compared to €0,813,000 achieved in the previous financial year, representing 1.51% of total lending to customers.

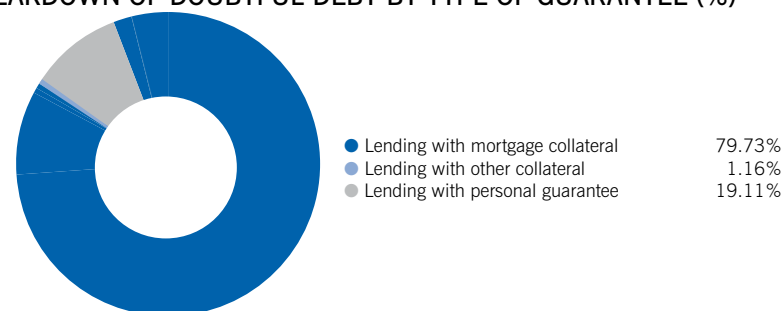
Doubtful debt, as of 31 December 2018, stood at €47,344,000 compared to €4,030,000 at the end of the previous financial year.

EVOLUTION OF DOUBTFUL DEBT (IN THOUSANDS OF EUROS)



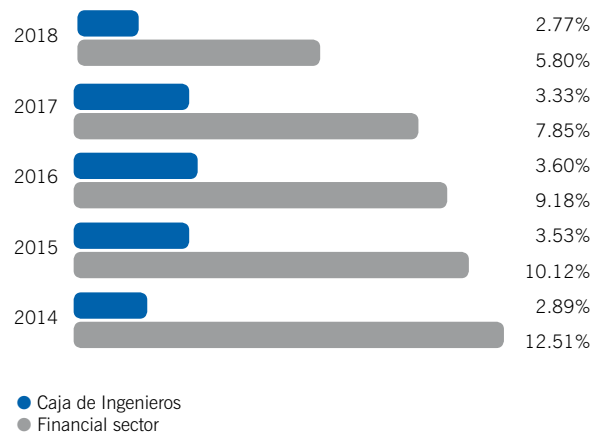
Doubtful debt, as of 31 December 2018, broke down as €7,746,000 corresponding to the loans and lending with mortgage collateral portfolio and €5,598,000 corresponding to other loans and lending, representing 79.73% and 20.27%, respectively.

BREAKDOWN OF DOUBTFUL DEBT BY TYPE OF GUARANTEE (%)



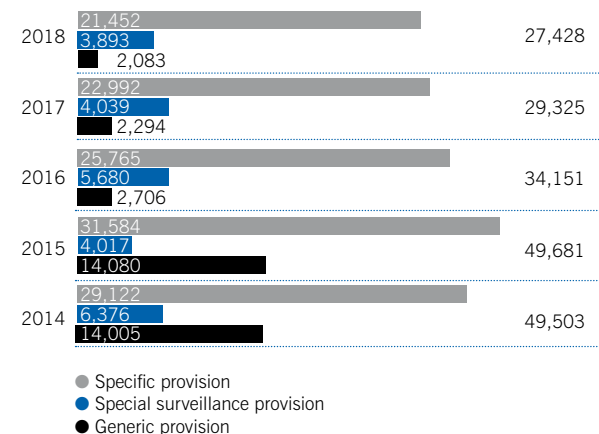
Of the doubtful assets, as of 31 December 2018, the amounts of €4,566,000 and €2,778,000 were classified as non-performing and doubtful for reasons other than non-performance, respectively. The [default rate](#), which includes all doubtful debts, as of 31 December 2018 was 2.77%, compared to 3.33% as of 31 December 2017. It should be noted that the Entity was able to keep the default rate substantially below the average for the financial sector, which, at the close of the 2018 financial year, was 5.8%. This evolution is the result of the rigorous application of a strict lending policy, the quality of assets and of their guarantees.

EVOLUTION OF THE DEFAULT RATE (%)



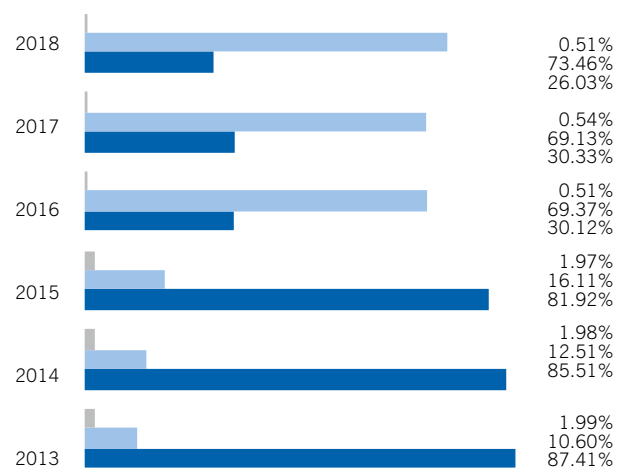
The [provisions for credit risk losses](#) went from €9,325,000 to €7,428,000 as of 31 December 2017 and 2018, respectively, in accordance with the requirements of the Bank of Spain and according to criteria of maximum valuation prudence.

PROVISIONS FOR COVERAGE OF CREDIT RISK LOSS (IN THOUSANDS OF EUROS)

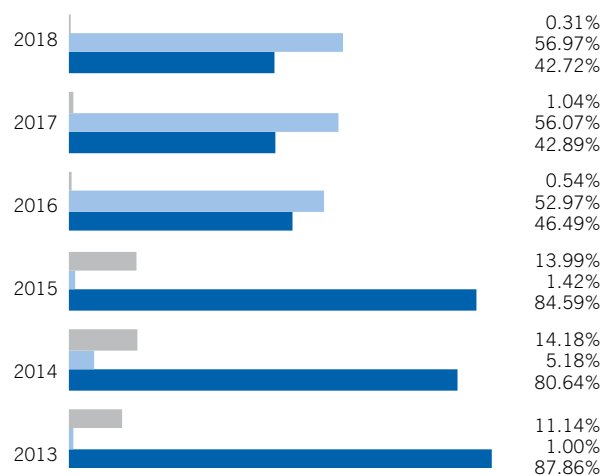


It should be noted that the 26.03%, 42.72% and 66.13% of the provisions for normal risk, for normal risk under special surveillance and for doubtful risk, respectively, covered assets backed by mortgage collateral.

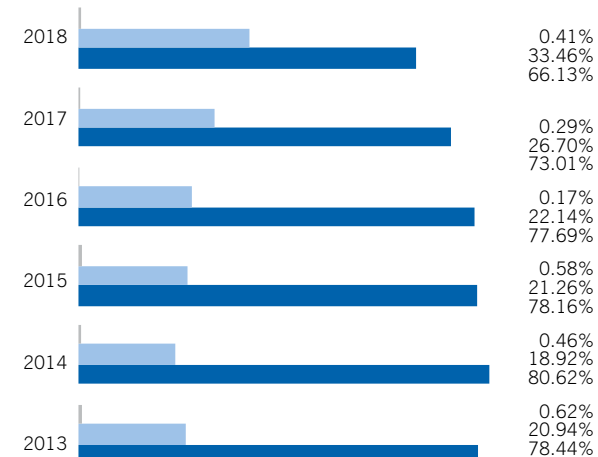
EVOLUTION OF THE BREAKDOWN OF THE PROVISION FOR NORMAL RISK (%)



EVOLUTION OF THE BREAKDOWN OF THE PROVISION FOR NORMAL RISK IN SPECIAL SURVEILLANCE (%)

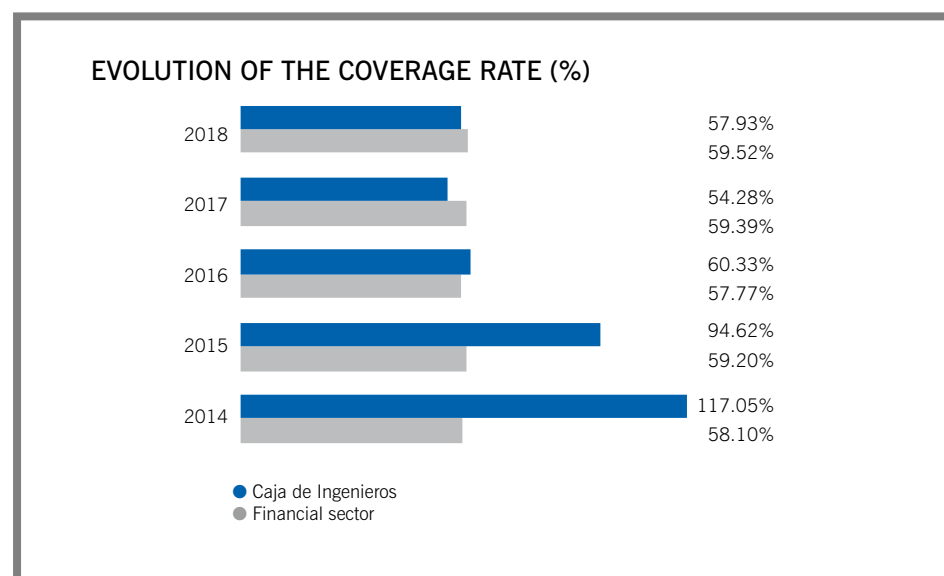


EVOLUTION OF THE BREAKDOWN OF THE PROVISION FOR DOUBTFUL RISK (%)



- Transactions with other collateral
- Transactions without collateral
- Transactions with collateral on a home

The Entity's strict lending policy, which enables it to keep default rates low, combined with the application of criteria of maximum valuation prudence in determining credit risk coverage needs, translated into a **doubtful debt coverage rate** of 57.93% as of 31 December 2018.



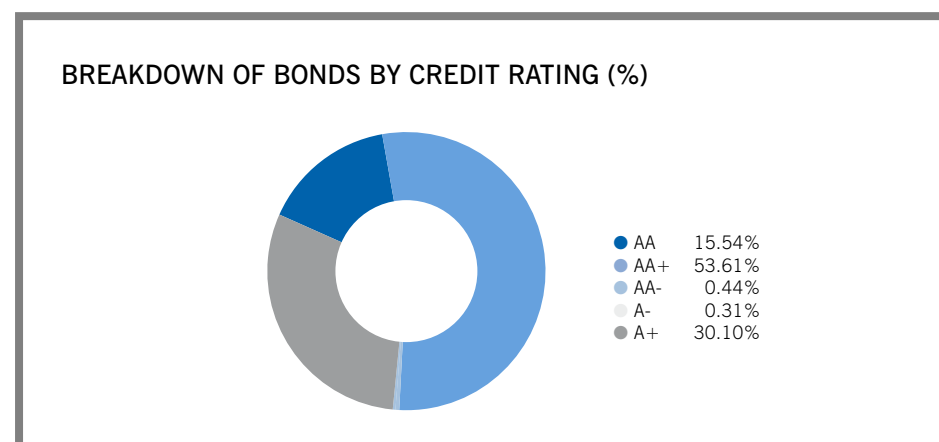
Foreclosed assets, relating to assets received by the Entity in payment of debts, stood at €1,131,000 as of 31 December 2018, compared to €1,740,000 at the end of the previous financial year. In addition, the volume of this portfolio, as of 31 December 2018, represented 0.07% of total assets. It should be noted that the management of foreclosed assets is carried out by the Entity itself.

Mortgage securitization is the process by which a financial entity transfers the mortgage credit rights it holds on the assets of its balance sheet and transforms them into tradable financial assets in organized markets. It is, therefore, a financing instrument in which illiquid credit rights are used as collateral in order to convert them into tradable liquid financial assets.

Caja de Ingenieros has participated in five multi-assignor mortgage securitization programmes, of which, at the moment, three still remain in force with an amount pending amortization, as of 31 December 2018, of €1,981,000, compared to an initial amount of €41 million.

The Entity has also carried out, as a single assignor, two securitization programmes for mortgage assets, the Caja Ingenieros TDA 1 Asset Securitization Fund and the Caja Ingenieros AyT 2 Asset Securitization Fund, for initial amounts of €70 million and €50 million, respectively. As of 31 December 2018, the amount pending amortization, added for both securitizations, was €102,706,000.

Below is a breakdown by credit rating of the bonds issued¹ through the five aforementioned asset securitization programmes, which the Entity held in its portfolio, as of 31 December 2018, for a total amount of €34,493,000:



See section 7. *Risk management* in this report for a thorough analysis of the different risks assumed by the Group.

¹ The rating assigned follows the criteria established by the CRR and, if two credit assessments from different rating agencies exist, the lower of the two is shown.

8.1.2. Liabilities and other managed funds

Turnover

Banking turnover, defined at management level as the sum of managed third-party funds and gross lending to customers, amounted to €6,190,206,000 as of 31 December 2018, compared to €5,750,361,000 as of 31 December 2017, which represented an increase of €439,845,000 (7.65 in relative terms).

Detailed below is a breakdown of turnover:

	2018	2017	Change (abs)	Change (%)
Gross lending to customers	1,697,104	1,611,341	85,763	5.32%
Managed liability funds	2,762,080	2,377,618	384,462	16.17%
Off-balance-sheet managed funds	1,731,022	1,761,402	-30,380	-1.72%
Total turnover	6,190,206	5,750,361	439,845	7.65%

In thousands of euros.

Managed funds

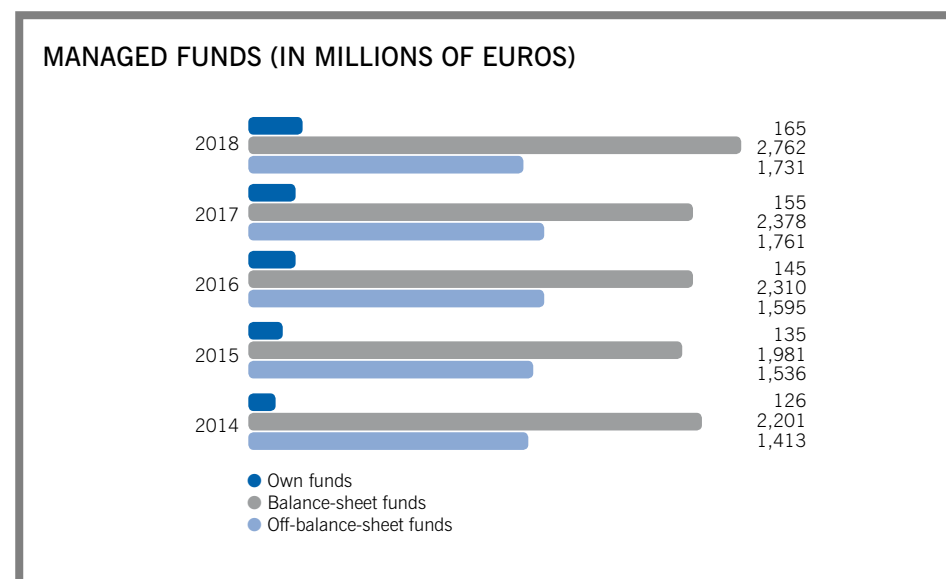
Managed third party and own funds stood at €4,658,161,000 as of 31 December 2018, compared to €4,293,572,000 as of 31 December 2017, which represented an increase of €364,589,000 (8.49% in relative terms).

Detailed below is a breakdown of managed funds:

	2018	2017	Change (abs)	Change (%)
Own funds	165,059	154,552	10,507	6.80%
Managed liability funds	2,762,080	2,377,618	384,462	16.17%
Off-balance-sheet managed funds	1,731,022	1,761,402	-30,380	-1.72%
Total managed third-party and own funds	4,658,161	4,293,572	364,589	8.49%
Of which: Total Managed Customer Funds	4,362,735	3,796,077	566,658	14.93%

In thousands of euros.

In addition, its evolution over the last five years according to its classification is presented below:



Managed liability funds

Managed liability funds stood at €762,080,000 as of 31 December 2018, compared to €377,618,000 as of 31 December 2017, which represented an increase of €384,462,000 (16.17% in relative terms).

Customer deposits increased by €79,716,000 (16.86% in relative terms) as of 31 December 2018, to stand at €632,045,000, compared to €252,329,000 at the end of the 2017 financial year.

EVOLUTION OF CUSTOMER DEPOSITS (IN MILLIONS OF EUROS)



The composition of customer deposits, according to their nature, had the following breakdown:

	2018	2017	Change (abs)	Change (%)
Demand deposits	2,042,480	1,409,462	633,018	44.91%
Term deposits	527,887	575,429	-47,542	-8.26%
Repos	61,210	266,829	-205,619	-77.06%
Valuation adjustments	468	609	-141	-23.11%
Total customer deposits	2,632,045	2,252,329	379,716	16.86%

In thousands of euros.

Financing by the European Central Bank was maintained at €00 million as of 31 December 2018. This financing corresponds in its entirety to the liquidity obtained through the long-term financing programme of the ECB (TLTRO II), which is being fully transferred to members through the lending process.

Finally, it should be noted that the Group had a structural liquidity ratio of 157.75% at the end of the 2018 financial year, 65 points higher than the financial sector average, something that consolidates its excellent liquidity position and enables it to deal with changes in the financial environment, as well as episodes of stress in the financial markets. In turn, this optimum liquidity situation enables it to offer a wide range of financing to members and the economy (see section 7.7. *Risk management - Structural liquidity risk* in this report)

Off-balance-sheet managed funds

Off-balance-sheet managed funds stood at €1,731,022,000 as of 31 December 2018, compared to €1,761,402,000 as of 31 December 2017, which represented an decrease of 1.72% in relative terms, derived mainly from the negative evolution of the markets, which has been cushioned by the increase in new contributions. The aforementioned evolution of the markets has affected, mainly, the assets of investment funds and equity securities.

Below is a breakdown of off-balance-sheet managed funds:

	2018	2017	Change (abs)	Change (%)
Investment funds	845,281	880,528	(35,247)	(4.00%)
Internal investment funds	554,433	597,193	(42,760)	(7.16%)
External investment funds	290,848	283,335	7,513	2.65%
Insurance	460,050	412,273	47,777	11.59%
Internal pension funds	211,533	218,263	(6,730)	(3.08%)
Insured pension plan	109,618	90,964	18,654	20.51%
Individual systematic savings plan	73,485	52,797	20,688	39.18%
Annuities	9,283	7,831	1,452	18.54%
SIALP	46,192	26,882	19,310	71.83%
Unit linked	1,417	5,985	(4,568)	(76.32%)
External pension funds	8,522	9,551	(1,029)	(10.77%)
Values	425,691	468,601	(42,910)	(9.16%)
Equities	327,056	384,181	(57,125)	(14.87%)
Fixed income	98,635	84,420	14,215	16.84%
Off-balance-sheet managed funds	1,731,022	1,761,402	(30,380)	(1.72%)

In thousands of euros.

Investment funds

The assets of the [investment funds](#) managed by Caja de Ingenieros Gestión and those of the [external investment funds](#) marketed by the Group [that form part of off-balance-sheet managed funds](#), as a whole, at the end of the 2018 financial year, stood at €45,281,000, which represented a decrease of 4.00% in relative terms, essentially as a result of the negative evolution of the markets, which has been cushioned in part by the increase in new contributions.

The total assets of the investment funds managed by Caja de Ingenieros Gestión, as of 31 December 2018, amounted to €563,702,000, compared to €608,464,000 for the previous financial year, representing a decrease of 7.36% in relative terms.

Below is a breakdown of the investment funds managed by Caja de Ingenieros Gestión by type of fund:

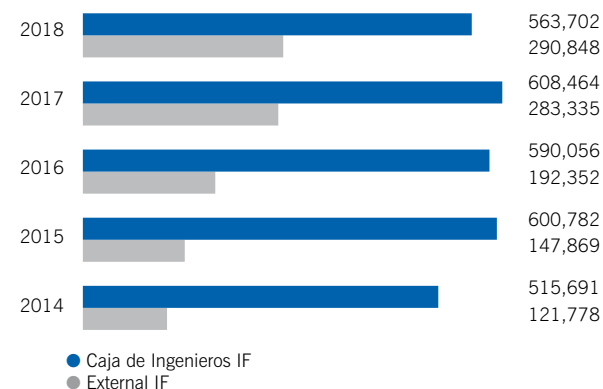
	2018	2017	Change
Fixed income IF	86,194	123,273	-30.08%
Equities IF	219,818	215,184	2.15%
Mixed fixed-income IF	134,720	126,573	6.44%
Mixed equities IF	25,255	25,515	-1.02%
Guaranteed IF	36,618	46,824	-21.80%
Other Funds	61,097	71,095	-14.06%
Total Investment funds	563,702	608,464	-7.36%

In thousands of euros.

With regard to the total number of managed investment fund accounts, these stood at 32,928 and 30,517 as of 31 December 2018 and 2017, respectively, representing an increase of 7.90%.

Below is a breakdown of the evolution of the investment funds marketed by the Group over the last five financial years:

EVOLUTION OF MARKETED INVESTMENT FUNDS (IN THOUSANDS OF EUROS)

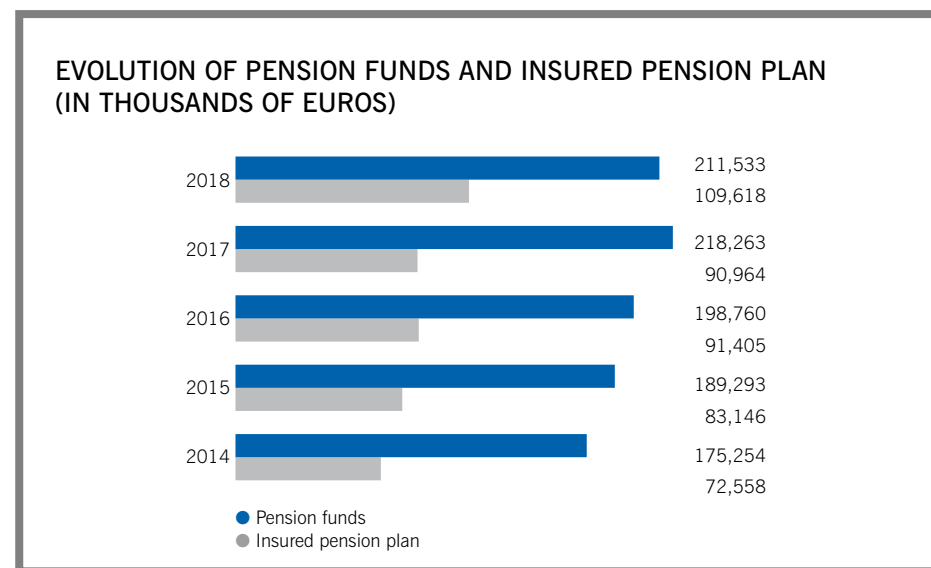


Caja de Ingenieros' [Discretionary Portfolio Management](#) Service closed the year with managed assets of 248 million euros, which represented an increase of 17% compared to the end of the previous financial year. This investment service offers an immediate and dynamic management response to events occurring in the financial markets.

Supplementary pensions

Supplementary pensions, relating to the consolidated rights of [pension funds](#) and the mathematical provision of [the insured pension plan](#) managed by Caja de Ingenieros Vida, as of 31 December 2018, stood at €21,151,000, compared to €09,227,000 as of 31 December 2017, representing an increase of 3.86%.

Below is a breakdown of the evolution of the pension funds and insured pension plan over the last five financial years:



The breakdown by type of pension fund and insured pension plan, both managed by Caja de Ingenieros Vida, is as follows:

	2018	2017	Change
Employment	8,739	9,109	-4.06%
Fixed income PF	11,070	13,146	-15.79%
Equities PF	78,137	76,525	2.11%
Mixed fixed-income PF	57,692	57,857	-0.29%
Mixed equities PF	51,594	56,946	-9.40%
Guaranteed PF	4,301	4,680	-8.10%
IPP	109,618	90,964	20.51%
Total pension funds and insured pension plan	321,151	309,227	3.86%

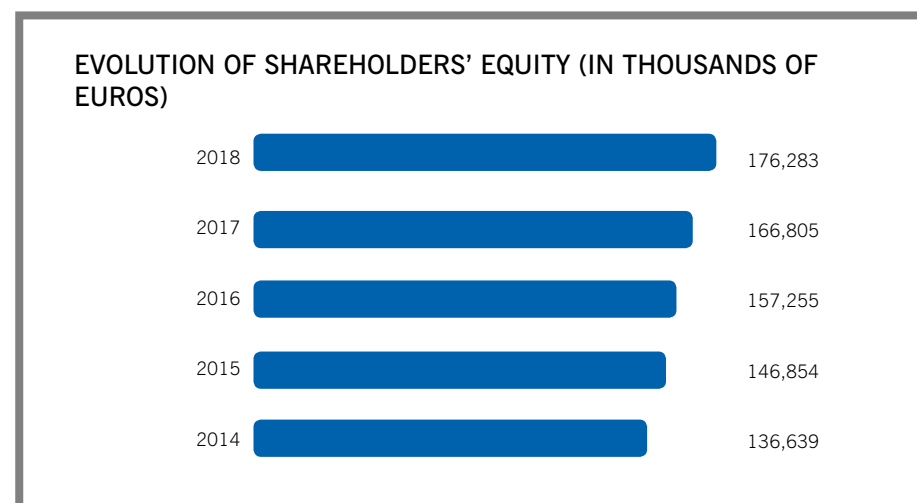
In thousands of euros.

In addition, the total number of pension fund accounts stood at 13,857 and 12,838 as of 31 December 2018 and 2017, respectively, representing an increase of 7.94%.

See section 6.2.vi. *About us – Personalized Services* of this report, which provides more detailed information relating to the products managed by the Group.

8.1.3. Shareholders' equity

The [shareholders' equity](#) of the Group, as of 31 December 2018, stood at €76,283,000, compared to €66,805,000 at the end of the previous financial year.



Share capital, as of 31 December 2018, stood at €3,865,000, corresponding to 769,427 Caja de Ingenieros shares distributed among 22,619 members with contributions to the capital of Caja de Ingenieros.

EVOLUTION OF SHARE CAPITAL (IN THOUSANDS OF EUROS)



As of 31 December 2018, Caja de Ingenieros Group's subsidiary entities held 44,355 cooperative shares for a par value of €4,258,000, representing 5.76% of the Entity's total capital.

Caja de Ingenieros, as a cooperative credit society, maintains a highly dispersed capital structure that complies at all times with the limits set by its By-laws, ensuring that no member holds cooperative shares for an amount greater than 2.50% of its share capital in the case of natural persons or 10.00% in the case of legal persons.

The most significant holdings in the Entity's share capital held by legal entities belong to Fundación Privada de la Caja de Ingenieros and Consumidores y Usuarios de los Ingenieros, S. Coop. C. Ltda., with 4.45% and 1.01%, respectively, as of 31 December 2018. Regarding holdings by natural persons, the high degree of dispersal of the Entity's members means that the highest individual holding, as of 31 December 2018, was only 2.5%.

The membership of Caja de Ingenieros Group increased by 26,998 in 2018, reaching a total of 187,410 as of 31 December 2018. Below is a breakdown of the evolution of membership over the last five financial years:

EVOLUTION OF MEMBERSHIP



93.09% of the Group's members were natural persons and 6.91% were legal persons, with the number of members in terms of natural and legal persons standing at 174,469 and 12,941, respectively, as of 31 December 2018.

The Group's [reserves](#) as of 31 December 2018, stood at €5,452,000, a figure that represented an increase of 10.74% compared to the previous financial year. Reserves account for 54.15% of own funds.

EVOLUTION OF RESERVES (IN THOUSANDS OF EUROS)



8.2 Results

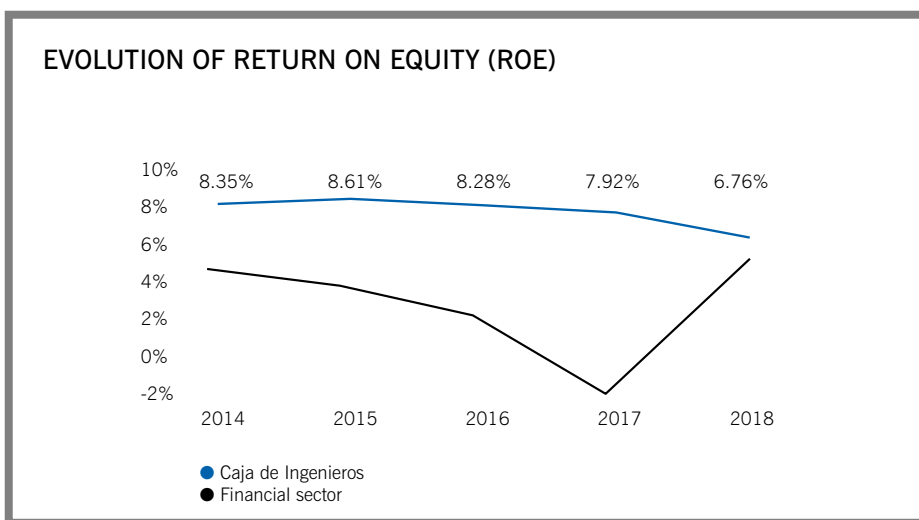
8.2.1. Consolidated result

The [Group's earnings for the financial year](#), as of 31 December 2018, stood at €1,162,000, which represented a decrease of 8.81% compared to the 2017 financial year figure of €2,240,000. This result reflects the difficult context of the financial sector, in which interest rates continued to be at record lows and the situation of financial markets was adverse, especially in the last quarter of the year.

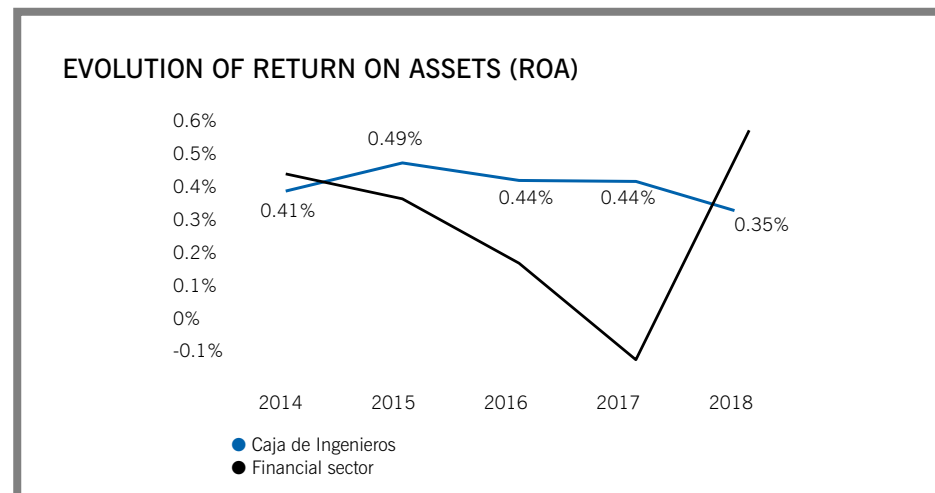
EVOLUTION OF CONSOLIDATED RESULT (IN THOUSANDS OF EUROS)



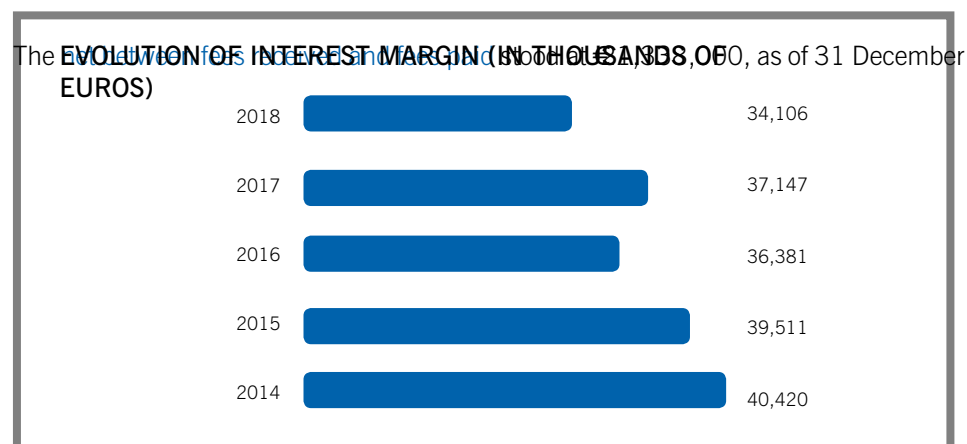
The evolution of earnings, together with the organic growth of equity that, in turn, made it possible to strengthen the Group's financial position, meant that **return on equity (ROE)** at the close of the 2018 financial year stood at 6.76%, compared to 7.92% as of 31 December 2017.



Similarly, **return on assets (ROA)** stood at 0.35% as of 31 December 2018, compared to 0.44% in the previous financial year.



The **interest margin** in 2018 was €4,106,000, a decrease of €3,041,000 (-8.19%, in relative terms) with respect to the 2017 financial year. This decrease is basically due to the prolonged drop in interest rates, which mostly affected the profitability of the renewed positions in the fixed income portfolio.



2018, compared to €3,738,000 recorded in 2017 December, which represented a decrease of €2,400,000 (-10.11%, in relative terms), as a consequence, basically, of the negative evolution of the markets, which led to a decrease in the volume of fees for the management of products in the asset management business, particularly investment funds and discretionary portfolio management (see *section 8.1.2 Liabilities and other managed funds – Off-balance-sheet managed funds* of this report).

The *financial transactions net result* amounted to €1,525,000 at the end of the 2018 financial year, mainly as a result of the materialization of latent capital gains in the available-for-sale financial assets portfolio, taking advantage of the market situation which was favourable for these assets..

Net operating income decreased by €1,084,000, mainly due to the increase in the contribution to the Deposit Guarantee Fund and the Single Resolution Fund by €12,000, with respect to the previous year; as well as a modification to the accounting of financial fees to compensate direct costs, included in Circular 4/2017, which are no longer included in this chapter and are fully accrued in the IRR of the transaction.

As a result of the above, the *gross margin* as of 31 December 2018 was €8,258,000, compared to €3,035,000 in 2017, representing a decrease of 7.58%. It should be noted that net interest and net fees accounted for 95.17% of gross margin at the close of the 2018 financial year.

EVOLUTION OF GROSS MARGIN (IN THOUSANDS OF EUROS)



Operating expenses (administrative expenses and amortizations) decreased by 5.59% compared to the previous financial year, basically as a result of a reduction of the amortized amount in 2018 with respect to the previous year, derived from the reevaluation exercise of the useful lives of internally developed software. As a consequence of this exercise, the average useful life of said software has changed from 4 years to 9 years, applying said modifications prospectively as of 2018. For their part, administrative expenses remained stable with respect to the previous year, despite significant growth in the number of members, in operating transactions and in turnover; however, the decrease in gross margin led to an *efficiency rate* of 76.01% as of 31 December 2018.

The result between *provisions and impairment of financial assets* continued to improve, with a net recovery in 2018 of €1,829,000. Said recovery responds to the prudent credit risk management carried out by the Entity which, together with the improvement in the quality of the asset, enabled the delinquency ratio to decrease with respect to the previous year and to maintain the coverage ratio slightly higher than for the previous exercise.

Income tax expense includes the difference between the corporate tax settlement amount for 2017 and the expense recorded in that year for this item, which corresponds, basically, to the deduction for technological innovation activities applied to the Entity's tax settlement, as well as a reduction of the tax base in 2017 for Caja de Ingenieros and the subsidiaries Caja de Ingenieros Vida, Compañía de Seguros y Reaseguros, SAU and Caja Ingenieros, Operador de Banca-Seguros Vinculado, S.L.U., for the capitalization reserve.

8.2.2. Individual results of Group entities

Shown below is the evolution of the results of [Caja de Ingenieros](#) and the Group's [subsidiaries](#), as well as the [associated entity Norbolsa](#), an entity in which Caja de Ingenieros maintains a 10% holding in order to enhance the services it currently provides to members in the area of securities markets, one of the Group's strategic business lines:

The result of [Caja Ingenieros Gestión](#), for 2018, stood at €1,123,000, which meant an increase of €81,000 (154.07%, in relative terms), basically due to the fact that in 2018, with the entry into force of MIFID II (*Markets in Financial Instruments Directive*), Caja Ingenieros Gestión did not incur the sales fees for the shares of those investment funds that were incorporated in assets that were part of discretionary portfolio management contracts.

The 2018 result of the [Caja de Ingenieros Private Foundation](#) stood at €4,000, an increase of €86,000 (108.14% in relative terms) mainly due to the fact that, in that 2017, the Foundation, for its promotion of educational and cultural activities, used surpluses from the 2016 pending application, derived from an extraordinary donation of €500,000 received from Caja de Ingenieros as part of a programme of activities planned for the celebration of the 50th anniversary.

RESULTS OF GROUP ENTITIES	2018	2017	Change (abs)	Change (%)
Caja de Crédito de los Ingenieros, S. Coop. de Crédito	9,317	9,816	(499)	(5.08%)
Caja Ingenieros Gestión, S.G.I.I.C., S.A.U.	1,123	442	681	154.07%
Caja Ingenieros Vida, Compañía de Seguros y Reaseguros, S.A.U.	1,376	1,340	36	2.69%
Caja Ingenieros, Operador de Banca-Seguros vinculado, S.L.U.	474	598	(124)	(20.74%)
Consumidores y Usuarios de los Ingenieros, S.Coop. C. Ltda	28	31	(3)	(9.68%)
Fundación Privada de la Caja de Ingenieros	14	(172)	186	(108.14%)
RESULTS OF ASSOCIATED ENTITIES	2018	2017	Change (abs)	Change (%)
Norbolsa, S.V., S.A. (*)	1,643	1,615	28	1.73%

In thousands of euros. (*) Caja de Ingenieros has a holding in Norbolsa, S.V., S.A. of 10%.

8.2.3. Remuneration for the governing bodies

All remuneration received by members of the Entity's Governing Board and delegated committees, and the Boards of Directors of the Group's subsidiaries relates to the reimbursement of expenses incurred in the performance of their duties, as well as attendance fees for meetings. The governing bodies do not receive any other remuneration for the performance of their duties as members of the aforementioned boards and committees.

Remuneration of members of the Governing Board and the Boards of Directors of the subsidiaries amounted to €19,000, which represented a decrease of 3.92% compared to the €32,000 of the previous financial year.

The Group has no obligations with respect to the pensions or life insurance premium payments of the members of the above-mentioned governing bodies.

8.2.4. Proposal for distribution of profits

Caja de Ingenieros' result as of 31 December 2018 amounted to €3,317,000.

The proposed allocation of the profit for 2018, which the Governing Board of the Entity submits for approval to the General Meeting of members, is shown below:

Breakdown of result	2018
Interest payable to members for capital contributions	2,930
To obligatory reserves	3,548
To voluntary reserves	2,839
	9,317

In thousands of euros.

The distribution of €2,930,000 as interest to be paid to members for contributions to capital involves the application of a nominal interest rate of 4.00%.

Likewise, the Governing Board of the Parent Entity submits for the approval of the General Meeting of members the reclassification of part of the voluntary reserves to an unavailable reserve, for a term of 5 years, for an amount of €96,000, as a capitalization reserve, in order to apply the reduction in the taxable base of the Corporate Tax, according to the provisions of article 25 of Law 27/2014 of 27 November on Corporate Tax.

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