

# 2017

ANNUAL REPORT



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 securitisation.

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SWIFT: CDENESBB

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

### JOSÉ ORIOL SALA ARLANDIS

Dear members,

2017 was very special for Caja de Ingenieros, the year of our fiftieth anniversary, which we were able to celebrate thanks to the trust that our members have placed in us over the years. This trust has enabled us to consolidate and strengthen our business model, as shown by our track record and the results presented here.


Cooperative banking is consolidating in Europe and now represents more than 20% of market share. The key to the success of this model, of which Caja de Ingenieros is part, has undoubtedly been a commitment to the development of the local economy and the fostering of projects of professionals and SMEs, responsibility towards members and society and the promotion of sustainability, among others. Indeed, cooperative banking achieves an SME financing market

share that is much higher than 30% in the European market, a figure that shows this commitment to economic development.

To mark the anniversary of Caja de Ingenieros in June, we played host to the Executive Committee of the European Association of Co-operative Banks (EACB), which, for the first time, was held in Spain. This meeting served to reaffirm our commitment to the cooperative banking model.

2017 was not an easy financial year, but we faced it in our characteristic way: with prudence, moderation and fortitude, while always retaining our focus on risk management at all times. This performance was especially notable in the fourth quarter, a period in which we maintained the position we have had throughout our history and which is based on acting in the best interests of our members and for the Entity, in line with the institutional foundations that regulate the financial system.

Preserving the assets of our members is one of the main objectives that guide our activities. Evidence of this is that since the beginning of the economic crisis in 2008, we have



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maintained a position of extraordinary strength, as our main indicators continue to show today. The ability to adapt to changing events has helped us to fulfil our *raison d'être*: providing services to our members and ensuring a flow of financing that is always well within our limits of solvency, liquidity or asset quality. We could say, then, that we negotiated the crisis by building a future, expanding our services and membership base and absorbing regulatory requirements, and all of this in a banking sector immersed in a process of concentration. This attitude that we have maintained has become known and recognised in the market and has given greater impetus to our business and service model.

We firmly believe that being faithful to our cooperative values - responsibility, prudence, proximity, sustainability, transparency, etc. - has made us worthy of the trust of all of our members. And this confidence is reflected in one of the highest recommendation rates in the sector, with Caja de Ingenieros obtaining in 2017 a Net Promoter Score (NPS) of 44.7% compared to 0.1% for the financial market as a whole. It should

be noted that this recommendation is the main reason for new members choosing to join the Entity and explains why, by the end of 2017, there were more than 160,000.

We opened 3 new branches in response to the needs of our members. In Valencia, we launched a new branch concept for our youngest members, ImaginaLab, located on the campus of the Polytechnic University of Valencia, and also expanded our city centre branch, which is now much more accessible and modern. We also opened branches in Mataró and Terrassa as a result of an agreement between Caja de Ingenieros and Mútua General de Catalunya, which involves the opening of our clearly identified branches in its offices.

I would also like to highlight Caja de Ingenieros' commitment to socially responsible products. In 2017, we launched two new investment vehicles that take into account not only financial selection criteria, but also sustainability and environmental criteria, with an important focus on combating climate change: the CI Environment SRI investment fund

and the CI Climate Sustainability SRI pension plan.

It would be remiss of me not to also mention the work carried out by the Caja de Ingenieros Foundation, through which we channel many of our social projects. In 2017, we entered into new agreements with the Autonomous University of Barcelona, University of Deusto and ESADE Business School, with which we presented a study on carbon footprint calculation: 'The transition towards a low carbon economy, a look at the financial and food sectors.' We also continued to show our commitment, as we do every year, to innovation, entrepreneurship and education by awarding the Isabel de P. Trabal Scholarship and organising the 'Ideas Making Point' competition. During the year, and to celebrate the 50th anniversary of the Entity, the Foundation made a special contribution with the 'Action 50' award. Members became involved by voting on projects from the Foundation's three lines of action (training, workplace reintegration and sustainability). The winning initiatives received a special contribution to carry out their social projects.

2017, as I mentioned at the beginning of this letter, was a special, difficult and challenging financial year, but this is precisely why we continue to learn and improve every year in order to carry on offering the best of ourselves to all of our members, who place their trust in us. And it is thanks to our members and team of staff that we managed to make it a very good year.

Because our challenge is not to be a large entity, but a great entity at the service of our members.



**José Oriol Sala Arlandis**  
Chairman



Our results demonstrate the resilience of Caja de Ingenieros Group and our model, characterised by a high degree of solvency and the ability to adapt in order to effectively manage increased demand for our services from newly registered members.

## LETTER FROM THE GENERAL MANAGER

### JOAN CAVALLÉ MIRANDA

Dear members,

The banking sector has undergone major changes in recent years. Banking concentration, major regulation, digitisation and new agents that offer services similar to financial institutions were, without doubt, some of the challenges that we faced in 2017.

Particularly significant was the challenge of managing the enormous regulatory burden imposed on the industry which does not distinguish between large systemically important financial institutions and cooperative entities such as Caja de Ingenieros. Most of the regulations implemented do not take into account criteria of proportionality or risk assessment based on size or corporate or business model.

Challenges in the field of investment management services were also considerable. The two most notable were, on the one hand, the entry into force of the new MiFID II regulation in January and, on the other, the trend of members opting for investment products such as funds to

the detriment of other fixed-income or deposit options, boosted by low interest rates.

Against this backdrop, Caja de Ingenieros remained aligned with the objectives set in its IMPULSA 2019 strategic plan. I would like to highlight that our 2017 results reinforce our solvency and financial strength, achieving a capital ratio of 16.28% as the most significant indicator.

Particularly notable were our earnings, which, before taxes and Education and Promotion Fund allocations, amounted to more than 14 million euros, an increase of 5.75%. Regarding the Education and Promotion Fund, the Entity's contribution in 2017 was 771 thousands of euros, 18.25% more than the previous financial year, a fact that enables the Group to increase its involvement in social projects, as it is through this fund that resources are channelled for both the Caja de Ingenieros Foundation and for the carrying out of actions and initiatives as part of the Entity's CSR policy.

We continued to be committed to the promotion of the real economy, reinforcing our Corporate Banking activities with increased lending to this segment of 8.97% compared to the

previous financial year, representing 52.01% of the Group's granting of new credit in 2017.

Caja de Ingenieros also consolidated its diversification through asset management, lending and its range of insurance policies and pensions plans, among others.

As I mentioned at the beginning, one of the challenges of recent years has undoubtedly been digitisation. For some years now, we have been committed to offering the best service to members through MOBILE Banking, but we have taken a step further by transforming the former commercial area into the Member Services and Digital Strategy Area. In this regard, the Entity's commitment in recent years to promoting technology means that the technology area now accounts for 13% of the workforce, 50% more than in 2013, and that investments made since then exceed 26 millions of euros, with the investment in 2017 having increased, compared to that of 2013, by 99%.

The digitisation of the service for members is a reality. This has significantly increased the number of digital members, now standing at 63.52%, who made more than 69 million transactions, 14.74%

more than the previous year. The number of downloads of the MOBILE Banking app increased by 55% and the number of digital banking visits increased by 11%.

These results, in times that are not particularly favourable to the growth of earnings due to the interest rate environment, demonstrate the resilience of Caja de Ingenieros Group and our model, characterised by a high degree of solvency and the ability to adapt in order to effectively manage increased demand for our services from newly registered members. The earnings generated also continue to reflect the high quality of the assets, which minimises the cost of the Group's risk.

Looking ahead to the 2018 financial year, the challenges that we face include preserving the solvency of the Group to generate value for members; moving forward in proximity, particularly digital banking; adapting to a financial/monetary context in a state of change; and reinforcing the work of Caja de Ingenieros in terms of sustainability and commitment to society.

For 2018, we anticipate a positive evolution of turnover. We also forecast margins contained by the evolution of interest rates, by the member services

model and by the consolidation of the dual model that we have developed in recent years (service through digital banking and personalised advice).

During the year, in line with our way of managing business areas, we do not anticipate stress scenarios regarding the solvency, liquidity and quality of our assets, and we believe that the new IFRS-9 regulations will have minimal impact in relation to the cost of credit risk.

Finally, we plan to continue strengthening the integration of SRI (socially responsible investment) and ESG (environment, sustainability and governance) criteria both in the areas of financing and in the financial investments that we manage. It is evident that financial institutions have a more than significant role in the building of a more sustainable world and the search for the common good. Because of this, we also need to integrate these aspects into our activities and they have to be carried out with rigour and consistency, and, as a cooperative entity, we should promote and lead this incipient process of change that society and, increasingly, public institutions are proposing in the sector. For this reason, we want to contribute to consolidating the visibility of the cooperative banking model, as we

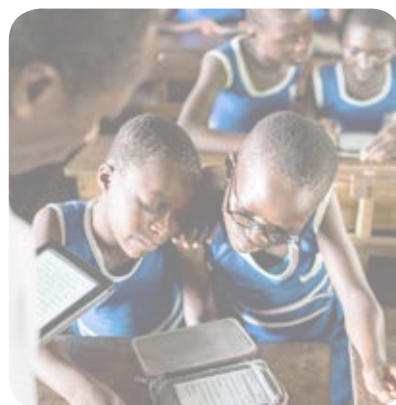
firmly believe that it allows us to contribute to the development of our society and offer, as an agent of social change, added value to our members.

I would like to thank all members of Caja de Ingenieros for the trust they have placed in us, which allows us to grow organically year after year. And also to thank the entire team for their commitment to offering the best of us to members. Also to the management team for their daily efforts in pursuing excellence of service to members and achieving profitability levels that not only improve the Group's equity profitability, but also its capacity for growth. Lastly, I would like to acknowledge the management of the Governing Board, which ensures that the Group's values are upheld at all times and guarantees effective supervision of executive lines and excellent regulatory compliance.

Rest assured that we will continue working to fulfil the expectations that have been placed upon Caja de Ingenieros Group.



**Joan Cavallé Miranda**  
General Manager



# 03

## MAIN INDICATORS



1. Letter from the Chairman
2. Letter from the General Manager
3. **Main indicators**
4. Environment and regulation
5. Strategy
6. About us
7. Risk management
8. Financial report
9. 50th anniversary

## MAIN INDICATORS

Members

▲  
**160**  
THOUSAND

More than 160,000 members placed their trust in Caja de Ingenieros. To be precise, in 2017, 160,412 new members joined.

Total capital ratio

▲  
**16.81%**

This is well above the 8% minimum required of financial institutions.

Structural liquidity

▲  
**128%**

In 2017, structural liquidity reached 128%, compared to 86% for the sector

Earnings for the financial year\*

▲  
**14**  
MILLION

Earnings before taxes and Education and Promotion Fund allocations amounted to 14,395 thousands of euros, an increase of 5.75%.

\* Earnings for the financial year before taxes and EPF allocations

Staff

▲  
**459**

We had a staff of 459 highly qualified and experienced professionals, 3.38% higher than in 2016. The average age was 40.55.

Ratings

▲  
**AA+ AA2**

Caja de Ingenieros' TDA 1 and AyT 2 mortgage securitisations, at the close of the 2017 financial year, maintained their credit ratings at the sectoral maximum (AA+ and Aa2) according to the rating agencies Fitch Ratings and Moody's.



NPS

▲  
**44.7%**

Caja de Ingenieros obtained a Net Promote Score (NPS), according to STIGA, of 44.7%, well above the industry average of +0.1%

ROE

▲  
**7.92%**

Return on equity (ROE), at the end of 2017, stood at 7.92%, compared to -1.12 for the sector

Default rate

▲  
**3.33%**

The default rate of 3.33% contrasts well with the high levels of bad debt held by the sector (7.9%), thereby confirming the Entity's proper management of credit risk.

Turnover

▲  
**+5.39%**

Turnover amounted to 5,750 millions of euros as of 31 December 2017, compared to 5,456 millions of euros as of 31 December 2016, an increase of 5.39% in relative terms.

Caja de Ingenieros  
Foundation

▲  
**2.7**  
MILLION €

Since its creation, the Foundation has allocated more than 2.7 millions of euros to 270 projects and has awarded 224 scholarships and awards in the academic and professional fields.

Digital Banking

▲  
**28**  
THOUSAND A DAY

Downloads of the **MOBILE** Banking app increased by 55% compared to 2016. Every day, more than 28,000 users visit the public website. The number of members using non-face-to-face channels increased by 13%

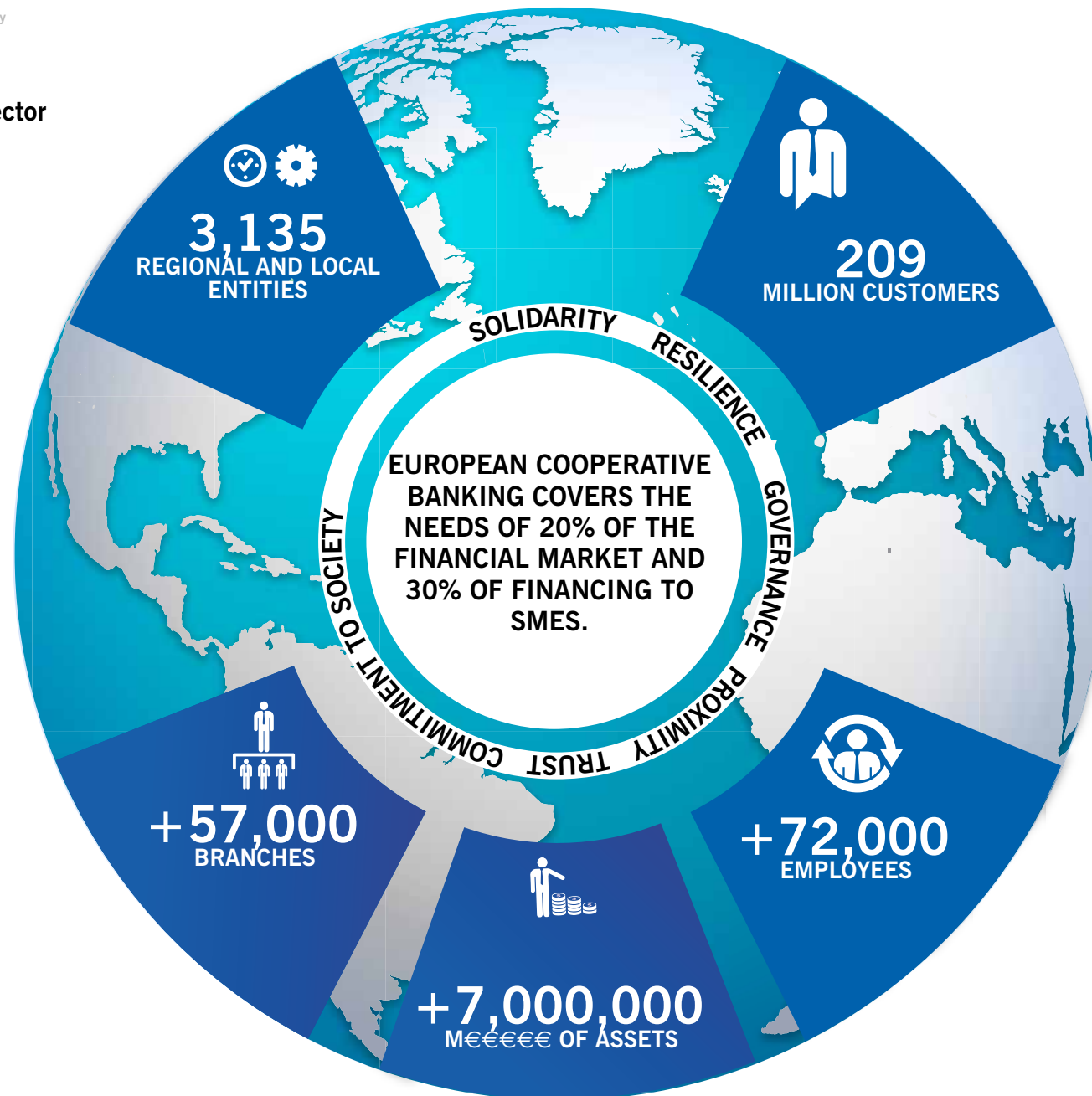
Member satisfaction  
rate

▲  
**8.21**

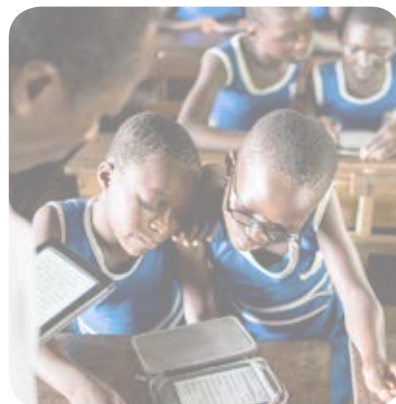
Volume of CISOs  
managed

▲  
**+15.9%**

### 3.1. European cooperative sector







# 04

## ENVIRONMENT AND REGULATION



## 4.1 Economic environment

### Robust growth of the European and global economy

2017 was characterised by being a year which confirmed a good global macroeconomic situation, with robust growth of world GDP which accelerated above 3.5%. Contrary to what occurred in recent years, the major international bodies, on several occasions, revised world growth upwards, and the IMF's forecasts of October 2017 pointed to an increase in world GDP to 3.6% in 2017 and up to 3.7% in 2018, after 3.2% in 2016.

The European economy was one of the positive surprises of the year, gaining momentum to place estimated GDP growth in 2017 a few tenths above 2%, the best figure of recent years, driven by the good performance of the German and Spanish economies and improvement in France and Italy. Increased business investment, improved competitiveness and reduced private debt ratios towards more sustainable levels helped consolidate Europe's good macroeconomic tone.

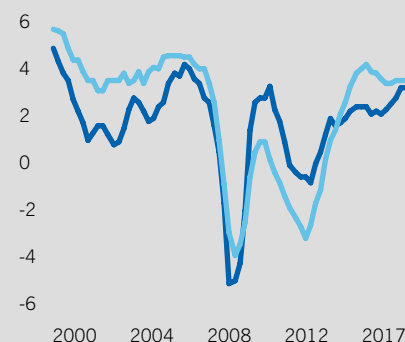
### Positive contribution of the foreign sector to the Spanish economy

Spain stood out with an estimated GDP growth of over 3% in 2017, benefited by intense job creation, low financing costs and the deleveraging of the private sector. Consumption continued to dominate national demand, although this gradually decelerated due to the exhausting of fiscal stimuli and the erosion of household purchasing power resulting from stagnant prices and salaries. Meanwhile, the recovery of the economic cycle in the eurozone and other developed countries was a stimulus for external demand, which increased its positive contribution despite the acceleration of imports. In short, the Spanish economy experienced balanced growth, with the foreign sector contributing positively in the midst of a phase of expansion.

# ENVIRONMENT AND REGULATION

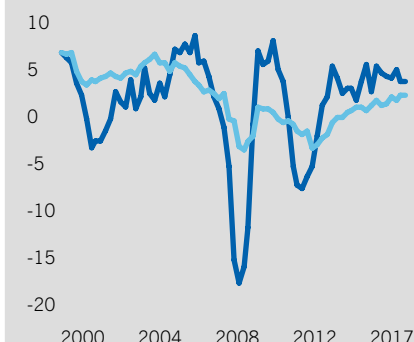
### STRONG RECOVERY OF ECONOMIC GROWTH...

#### GDP GROWTH



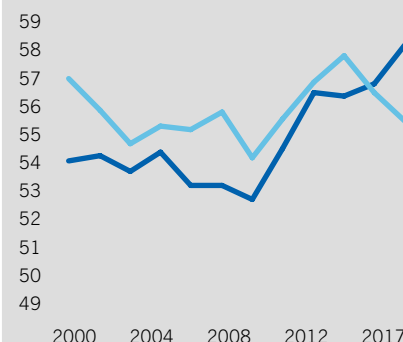
### POSITIVE EFFECTS OF BUSINESS INVESTMENT GROWTH...

#### GROSS CAPITAL FORMATION



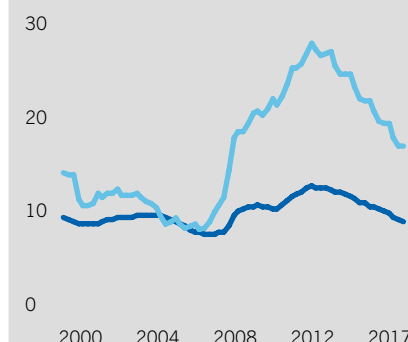
### LEADING INDICATORS POINT TO A CONTINUATION OF THE DYNAMISM...

#### MANUFACTURING PMI



### ... AND REDUCTION IN THE UNEMPLOYMENT RATE

#### UNEMPLOYMENT RATE



### Tail winds support growth

A large number of circumstantial and structural factors are generating a tail wind effect for the European and Spanish economy.

The economic surprise of the eurozone in recent quarters cannot be explained by different factors individually, but by a combination of different tail winds, which have intensified the effect. For example, the private sector has not decided on higher consumption or investment just because the ECB has created attractive financing conditions, but because it is one more ingredient that has been fostered by factors such as greater confidence of consumers and businesspeople, a more positive economic outlook, increased global growth and more disposable income.

Factor	Explanation
<b>ECB monetary policy</b>	According to the ECB, 'the repercussions of the monetary policy measures of recent years continue to be positive for financing conditions' in the sense that they drive the consumption and investment decisions of families and the corporate sector and reduce public debt interest expenses.
<b>Reduction of unemployment</b>	The reduction of unemployment, from 12.1% to 9.1%, as a result of greater economic dynamism, generates a positive side effect for private consumption through an increase in disposable income and consumer confidence.
<b>Deleveraging in the private sector</b>	A deleveraging process in the private sector started in 2014 that, today, against a backdrop of very reduced financing rates and better economic expectations, translates into an increase in the demand for private financing.
<b>Improvement of competitiveness</b>	Control of labour costs that has meant an improvement in the competitiveness of many countries of the eurozone, with positive consequences for their export positions, which has also been positively impacted by greater global economic growth (IMF forecast of world GDP: 2017 at 3.6%, 2018 at 3.7% vs. 2.3% in 2016).
<b>Depreciation of the euro</b>	The depreciation of the euro against the US dollar (from EUR/USD 1.30-1.40 in 2013-2014 to 1.05-1.15 in 2016) and compared to other currencies has meant a tailwind for exporting companies in the eurozone, although during subsequent quarters, this trend has partially reversed.
<b>Reduction of austerity policies</b>	Less focus on austerity, partially explained by significant reductions in the public deficits of most eurozone countries.
<b>Strength of the corporate sector</b>	Sound balance sheets (debt reduction) and increase in the efficiency of the European corporate sector, as reflected in an increase in the profit margins of many major companies in the eurozone.

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### Gradual normalisation of monetary policy

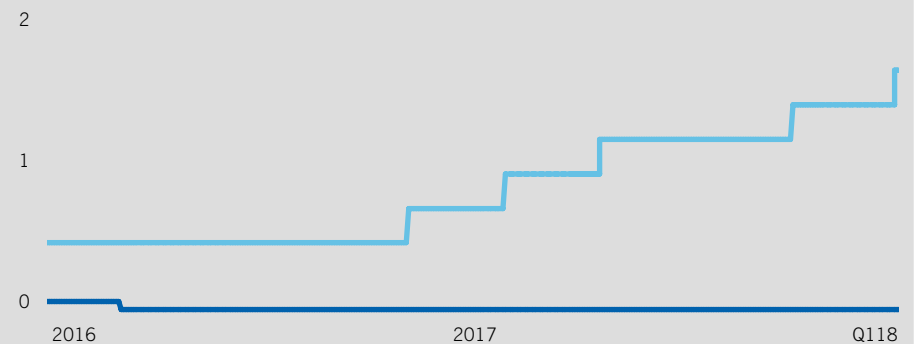
The monetary authorities of the world's main economic areas continued to play a prominent role in 2017. In the US, the Federal Reserve accelerated the return to normal monetary policy with three increases of 0.25 percentage points each, with intervention rates reaching the level of 1.25% -1.50%, driven by the dynamism of the labour market and the positive trend in inflation. In addition, the reduction of its balance sheet began with the abandonment of the reinvestment of debt maturities acquired in different asset purchase programmes.

For its part, the European Central Bank (ECB) maintained throughout the year the expansive tone of its monetary policy with intervention rates unchanged at 0%, the deposit facility rate at -0.40% and the quantitative expansion (QE) programme at full capacity, but, in the final quarter, it began to specify the process of normalising its monetary policy by announcing that debt purchases would be reduced from January 2018. The reluctance of the ECB to reduce stimulus measures more aggressively was reinforced by the appreciation of the euro against the dollar and the containment of inflation in Europe.

EUR/USD



ECB AND FED RATES



● ECB ● FED

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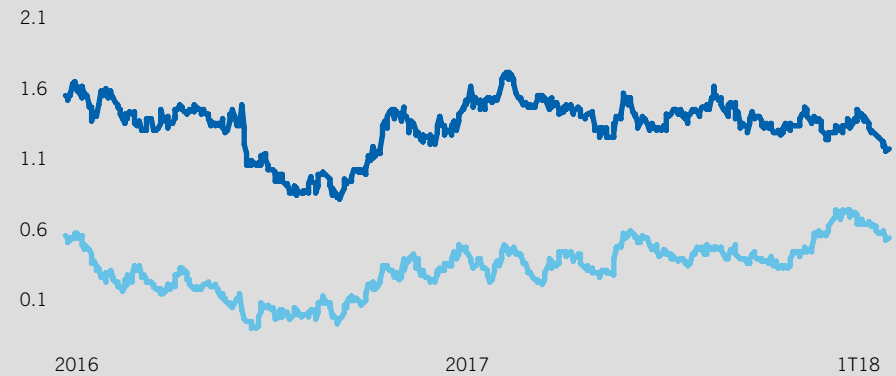
### Reflection in the markets of economic optimism

Global equity markets have positively welcomed both the estimated figures for global economic growth, which maintains this synchronised acceleration, and the publication of company results. The bond market has maintained a certain stability, responding to the fact that the lack of inflationary expectations in economies, such as those in Europe, reduces pressure on the monetary authorities and on long-term interest rates.

For the coming quarters, however, an increase in the factors of uncertainty, partially caused by changes in the monetary policies of major global central banks, may cause moments of volatility in the financial markets.

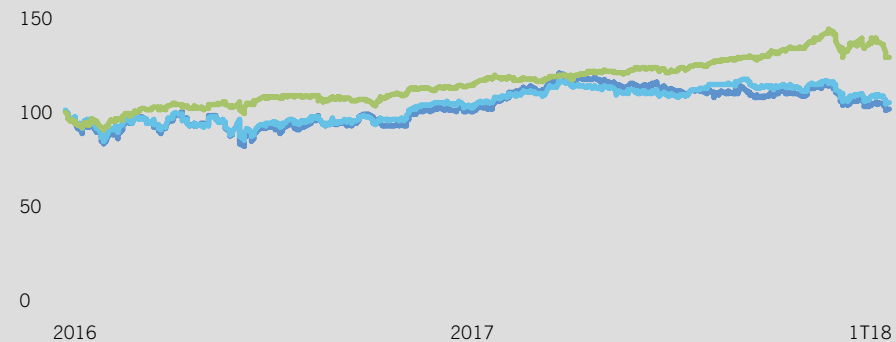
In short, the macroeconomic environment and monetary policies were determining factors for the good evolution of financial asset prices in 2017. Although, at the same time, there is debate about the second-round effects that these policies of zero interest rates may have on systemic sectors such as the financial sector.

#### INTEREST RATE CURVE



● IRR Bund 10y ● IRR Spain 10y

#### STOCK MARKETS



● IBEX 35 ● Eurostoxx 50 ● S&P 500



## 4.2 Banking environment

### Negative interest rates, regulatory pressure and digitisation

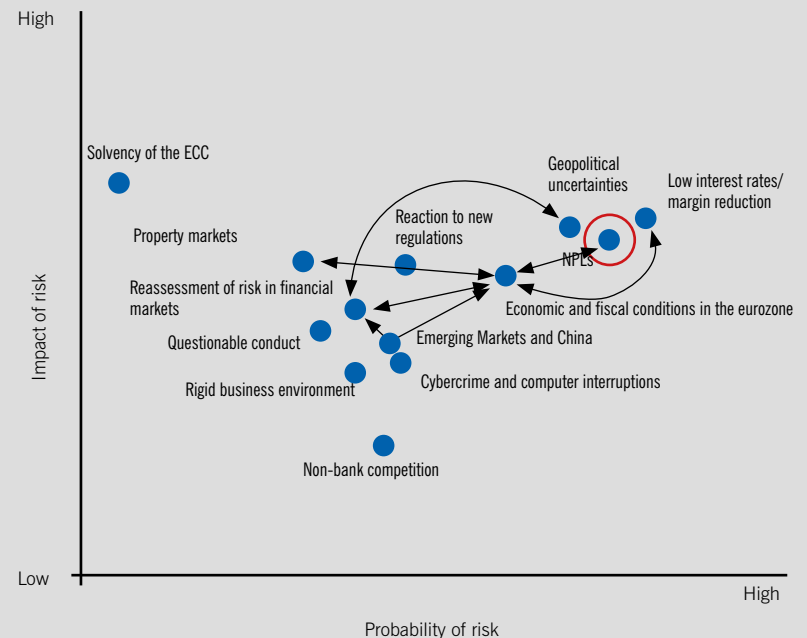
The European banking sector had to conduct business against a backdrop of low interest rates, which compressed its interest margins. In addition, high regulatory pressure in terms of capital requirements, liquidity ratios, investor protection, good governance, prevention of money laundering, payment services and risk management, and the threat of new trends in the consumption of financial services forced the industry to reinvent itself in order to generate the desired profitability.

We are facing a great technological transformation in the banking sector, in which factors such as permanent connectivity and multiplicity of devices affect the way in which financial services are provided. The entry on the scene of *fintech* businesses foresees a challenge that will force the sector to change its customer communication strategy, but, at the same time, represents an opportunity that will lead to constant operational improvements.

### Continued concern over non-performing loans

The other great challenge facing European banks is the high volume of non-performing loans (NPL), which continue to represent a major obstacle to profitability for financial institutions. Evidence of this is that this issue continues to be one of the main concerns of supervisory bodies. As can be seen on the risk map below, the ECB has identified this risk as one of the most likely to occur and to have the greatest impact.

BANK RISK MAP 2018



Source: European Central Bank

### Easy access to financing and accumulation of current account savings

In Spain, the main balance sheet items maintained their recent trend. In retail liabilities, a move away from term deposits (-29% in 2017) to demand/savings accounts (+14% in 2017) continued to occur.

The average interest rate on term transactions stood at levels below 0.20%, which generated savings on the cost of liabilities to the sector of around 1,000 millions of euros in 2017. From here, the margin of decline of the retail cost was reduced. Easily accessible environment for wholesale financing, with low credit risk premiums throughout the year.

### Growth of new credit, but contraction of balance sheets

In relation to lending, there was a slight net contraction in lending to the private residential sector (-1.7% year-on-year). Granting of credit to households, excluding refinancing, grew at a double-digit rate, exceeding the growth of the previous financial year in consumption, resulting from the search for profitability. New lending to SMEs also increased,

	December 2017	Monthly change		YTD		Interannual change	
	Balance € millions	€ millions	%	€ millions	%	€ millions	%
<b>Deposits (system total)</b>	<b>10,089,052</b>	<b>14,033</b>	<b>1.30%</b>	<b>6,393</b>	<b>-0.60%</b>	<b>6,393</b>	<b>-0.60%</b>
Demand deposits	857,075	18,917	2.30%	103,547	13.70%	103,547	17.70%
Term deposits	231,978	4,884	-2.10%	109,940	-32.20%	109,940	-32.20%
<b>Lending to other residential sectors</b>	<b>1,199,448</b>	<b>6,887</b>	<b>-0.60%</b>	<b>23,063</b>	<b>-1.90%</b>	<b>23,063</b>	<b>-1.90%</b>
Of which: Normal	1,105,271	2,904	-0.30%	4,965	-0.40%	4,965	-0.40%
Of which: NPL	94,177	3,982	-4.10%	18,098	-16.1	18,098	-16.10%
<b>Lending to public authorities</b>	<b>78,110</b>	<b>1,128</b>	<b>-1.40%</b>	<b>10,361</b>	<b>-11.70%</b>	<b>10,361</b>	<b>-11.70%</b>
<b>Default rate</b>	<b>7.85%</b>	<b>- 29 bp</b>		<b>- 133 bp</b>		<b>- 133 bp</b>	
By numerator		- 33 bp					
By denominator		55 bp					
<b>LtD</b>	<b>110%</b>	<b>- 2.1 pp</b>		<b>- 1.5 pp</b>		<b>- 1.5 pp</b>	

Sources: AFI and Bank of Spain

demonstrating the good performance of this segment, while the number of transactions to large companies remained stable compared to the previous year. New improvement evident in the quality of assets, which once again drove down the non-performing asset figure, causing the sector's default rate to decrease to close to 8.20% (from a rate slightly above 9% in 2016).

Regarding fixed-income portfolios, a new reduction in their total size (-12%) was recorded as entities unwound positions to generate gains and move away from this less attractive asset class due to negative or very low interest rates.

### Contraction of the interest margin near the turning point

The interest margin of the Spanish banking sector, excluding the Banco Popular figures, will probably close the 2017 financial year at 22,200 millions of euros, 1.5% less than the previous year. Meanwhile, it is expected that this year will serve as a turning point in the gross margin, with an increase in the global figure of almost 1% thanks to the good performance of net fees which will compensate for the fall in financial transaction earnings.

### Downward evolution of expenses and improvement in profitability

Operating expenses will fall by just over 3% due to capacity adjustments, efficiency improvement initiatives and structural changes. In relation to the cost of risk, there is a new positive evolution of provisions and losses due to asset impairment.

All in all, the sector's total aggregate net result will be close to 12,300 millions of euros, a figure that would generate an average ROE of approximately 6%.

TABLE. EVOLUTION MAIN SPANISH BANKING INDICATORS (EXCL. POPULAR)

	2015	2016	2017
<b>Return</b>			
ROA	0.60%	0.59%	0.72%
ROE	5.94%	6.07%	7.16%
<b>Efficiency</b>			
Ordinary	51.0%	54.5%	57.1%
Recurrent	69.8%	74.6%	76.3%
<b>Asset quality</b>			
Default	10.2%	9.2%	8.4%
Coverage	57.7%	57.7%	59.2%
<b>Liquidity</b>			
Loan to deposit	117%	112%	110%
<b>Solvency</b>			
CET1 phased-in	12.6%	12.8%	12.7%
Total solvency	14.3%	14.7%	15.5%
Leverage*	8.2%	8.5%	7.5%

Source: AFI  
\* Own funds/Assets

### 4.3 Regulatory environment

If we look back, in 2009, the Bank of Spain, at the beginning of the financial crisis, anticipated that the financial sector would need to prepare for a regulatory tsunami. This tsunami, far from disappearing, is reaching its peak at national level, since successive European directives and regulations have been processed and need to be transposed or adapted, respectively, to the Spanish legal system. Main issues:

1. Absence of a solid legal basis because most of the directives should have been transposed and the national legislator has still to adapt the regulations.
2. Absence of proportionality in the implementation of broad aspects of the regulations.



#### BANKING UNION

##### Aspects to be addressed in the financial year

- NPL. Non-performing loans Analysis to minimise or eliminate these loans from financial institutions. Work is being carried out on possible non-accounting (but computable at solvency level) provisions or, even, as an option in secondary markets, to trade these assets.
- Sovereign debt. Supervisory and regulatory approach to avoid the risk of concentration by country. Work is being carried out on the possibility of issuing new types of securitisations that have sovereign debt from different countries.
- European Guarantee Fund. A still outstanding issue for which there is considerable disagreement and lack of consensus among different member states.



#### SOLVENCY

##### Aspects to be addressed in the financial year

- The finalisation of the Basel III reforms is expected for implementation in the EU in 2023.
- At the same time, procedures for a new directive (CRD V) and a new regulation (CRR II) on capital requirements have been initiated. The most optimistic forecasts anticipate an agreement by the end of 2018.
- Additionally, the European Commission has launched a consultation to the sector with the aim of identifying possible duplications, repetitions or inefficiencies in supervisory reporting.
- Resolution: it is anticipated that amendments will be made to the credit institution resolution directive, which may give rise to BRRD II, as a result of the experience gained in the Banco Popular case.
- The 2018 financial year will be when the new IFRS 9 accounting standard will be put into operation, with consequences for the calculation of provisions based on expected loss.
- Also worth noting are the new Guides to Internal Capital and Liquidity Adequacy Assessment Processes to be implemented in 2018, which should already have been taken into account for the 2017 financial year process.

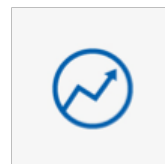




## CUSTOMER PROTECTION

### Aspects to be addressed in the financial year

- This area 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.
- This extensive package of measures is pending transposition by the national legislator, with most exceeding the limits set by the European regulator.
- According to the Government's legislative plan, 2018 will see the transposition of all of these regulations, covering all of the products and services that a credit institution can offer: mortgage loans, investment products, demand accounts, deposits, insurance and pension funds (Credit Directive, MiFID II, IDD, Pension Funds Directive, Payment Accounts Directive, governance guidelines for banking and investment products).
- In addition, it is anticipated that there will be a new law on extrajudicial resolution processes in the financial sector, in which changes and greater demands are expected in relation to dealing with customer claims and complaints.



## MARKETS

### Aspects to be addressed in the financial year

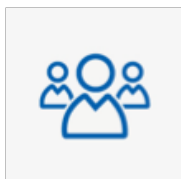
- 2018 will see the implementation of the MiFIR Regulation, which incorporates changes to securities markets, most notably, daily transaction reporting, post-trading transparency and annual reports on order receipt, transmission and execution centres. These impacts follow a regulatory agenda that in previous financial years had been implemented in areas such as the reform of equity and fixed-income markets (TARGET2) and the derivatives market (EMIR).



## PAYMENT SERVICES

### Aspects to be addressed in the financial year

- 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, accommodate and regulate new agents (payment initiators or account aggregators) and facilitate the comparability of fees and charges and the transfer of payment accounts.
- The directives that regulate the above should have been transposed by the beginning of 2018 at the latest but, as of the date of this report, they are still pending transposition.



## CORPORATE GOVERNANCE

### Aspects to be addressed in the financial year

- ESAs have issued definitive guidelines for CNAs in the area of the internal governance of entities and the process for assessing the suitability of board members, general managers and key personnel.
- Both guidelines fall within the process of the internal governance of risks in the SREP.
- They intend to reinforce governance aspects of entities (a cause for concern by being one of the originators of the financial crisis) and increase requirements in the process of selection, assessment and approval of certain positions in entities.
- The aim is for entities to have a very high degree of professionalisation in administration and management areas.



## DATA PROTECTION/FINTECH

### Aspects to be addressed in the financial year

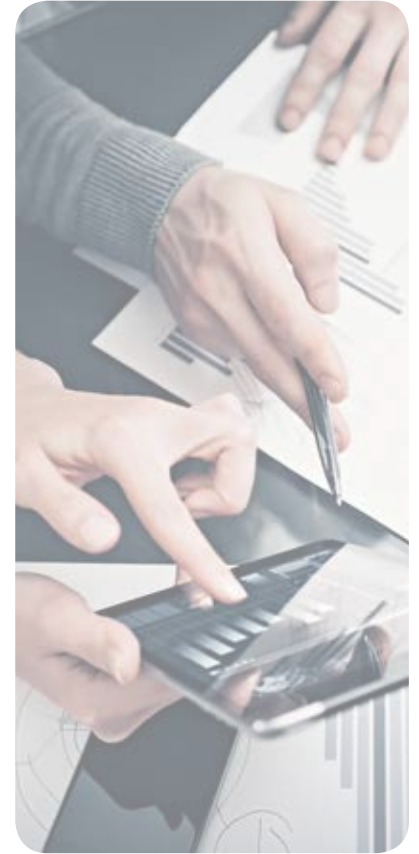
- In recent financial years and in the current 2018, regulatory packages intended to improve the security of electronic transactions, harmonise and improve the protection of personal data, also the result of new technologies, and supervise and regulate new types of transactions, such as cryptocurrencies, have been issued and this work is expected to continue.
- They are high impact regulations for entities, especially the EU's new General Data Protection Regulation, as it increases requirements in the collection of consent, the management of processing with a risk approach and incident communication mechanisms.



## PREVENTION OF MONEY LAUNDERING

### Aspects to be addressed in the financial year

- Standards and requirements in the fight against money laundering and the financing of terrorism are harmonised at European level. The impact at national level is not expected to be very high, but it should be noted that, due to delays in transposition, the Government not only plans to incorporate new developments in Directive IV, but also aspects of Directive V.



# 05

## 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 vocation is to provide a service to professionals and their families, whether engineers or 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 vocation that it defined at its inception: to provide personalised financial and insurance services with the best conditions of sustainability.

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, optimise and diversify our capacity to provide services and support to members. The Group's social projects are carried out by the Caja de Ingenieros Foundation.

### COMPANIES IN THE CAJA DE INGENIEROS GROUP

Company name	Registered address	Corporate purpose
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 attention to 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 marketing 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 intermediation
Norbolsa, SV, SA*	Plaza Euskadi, 5 48009 Bilbao	Investment services company
Fundación Caja de Ingenieros	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 Governing Board.



**Caja de Ingenieros**

Annual Report  
2017

1. Letter from the Chairman
2. Letter from the General Manager
3. Main indicators
4. Environment and regulation
- 5. Strategy**
6. About us
7. Risk management
8. Financial report
9. 50th anniversary

## Corporate organisation chart of Caja de Ingenieros Group companies

**GOVERNING BOARD**

José Oriol Sala Arlandis	Chairman
Manuel Bertran Mariné	Deputy chairman
Félix Masjuán Teixidó <sup>(1)</sup>	Secretary
Enric Homs Martínez <sup>(2)</sup>	Secretary
David Parcerisas Vázquez	
Pedro A. Hernández del Santo	
Pedro Marín Giménez	
Jaime Roure Pagès	
José María Pera Abadía	
August Bou Camps <sup>(3)</sup>	
Carme Botifoll Alegre	
Josep M. Muxí Comellas	
Antonio Santamans Olivé	
Montserrat Salleras Costal <sup>(4)</sup>	
Ignasi Vinuesa Gimeno <sup>(5)</sup>	

(1) Member appointed as secretary at the General Meeting of 6 November 2017.

(2) Until November 2017.

(3) Since November 2017.

(4) Until November 2017.

(5) Since November 2017.

**EXECUTIVE COMMITTEE**

José Oriol Sala Arlandis	Chairman
Enric Homs Martínez	Secretary
Manuel Bertran Mariné	
Pedro A. Hernández del Santo	

**GENERAL MANAGER**

Joan Cavallé Miranda

**MANAGEMENT COMMITTEE**

Joan Cavallé Miranda  
Jordi Marsan Ruiz  
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  
Jaume Franco Domingo  
Juanjo Llopis Rodríguez <sup>(1)</sup>  
Federico Ariza González <sup>(2)</sup>

(1) Since March 2017.

(2) Until March 2017.

**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**

Maximo Borrell Vidal	Chairman
Ferran Sicart Orti <sup>(1)</sup>	Deputy chairman
Francisco Duran Lorenzo	Member
Montserrat Bertran Bergua <sup>(2)</sup>	Member
Antoni Fernández Moreno	General manager

(1) Assumed the position of deputy chairman in February 2017.

(2) New board member since February 2017.

**FUNDACIÓN CAJA DE INGENIEROS**

José Oriol Sala Arlandis	Chairman
Manuel Bertran Mariné	Deputy chairman
Félix Masjuán Teixidó <sup>(1)</sup>	Secretary
Enric Homs Martínez <sup>(2)</sup>	Secretary
David Parcerisas Vázquez	
Pedro Hernández Del Santo	
Pedro Marín Giménez	
Jaume Roure Pagès	
José María Pera Abadía	
Augusto Rafael Bou Camps <sup>(3)</sup>	
Carme Botifoll Alegre	
José María Muxí Comellas	
Antonio Santamans Olivé	
Ignasi Vinuesa Gimeno <sup>(4)</sup>	
Montserrat Salleras Costal <sup>(5)</sup>	
Joan Cavallé Miranda	
Benjamín Manuel Calvo Pérez	
Josefina Cambra Giné	
Salvador Domingo Comeche	
Ramón Ferrer Canela	
Antonio Galdón Ruiz	
José Miguel Muñoz Veiga	
Joan M. Vallvé Ribera	
Aurelio Luis Azaña García <sup>(6)</sup>	

(1) Trustee appointed as secretary in November 2017.

(2) Until November 2017.

(3) Since November 2017.

(4) Since November 2017.

(5) Until November 2017.

(6) Until February 2017.

## 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 the leading institution in the sector for professional communities, to which it devotes, through the Caja de Ingenieros Foundation, its social projects.

### 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.'**

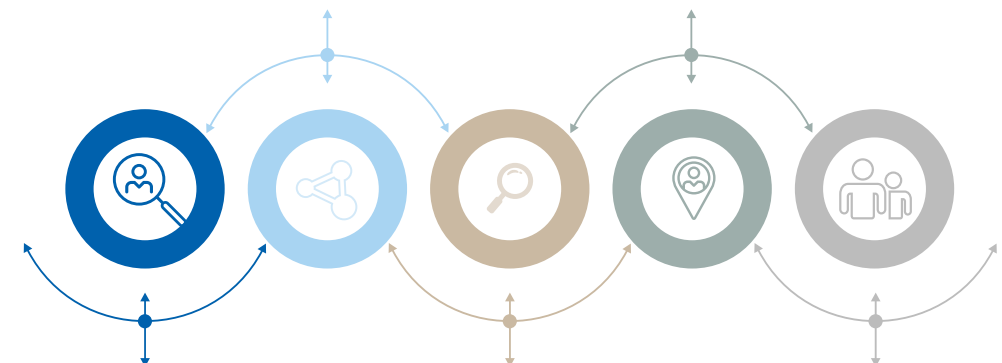
### VALUES

We dedicate ourselves to achieving the goals we set and make sure they are met. We are persistent and always take the initiative.

#### COMMITMENT

We work with efficiency, rigour and empathy through our effort, teamwork and ongoing training.

#### PROFESSIONALISM



#### INTEGRITY

We are true to our principles and ourselves. We want to work with honesty, reliability, accountability and transparency in the conduct of business, work, relationships and fulfilment of established commitments, always generating maximum confidence.

#### EXCELLENCE

We want to become a leading financial institution for professionals and, for this, we seek excellence in our work through effective and imaginative solutions for our members that help us to improve continuously.

#### PROXIMITY

Our link with members is based on physical and emotional closeness, solid and stable relationships built over time and mutual trust and knowledge of members' needs.

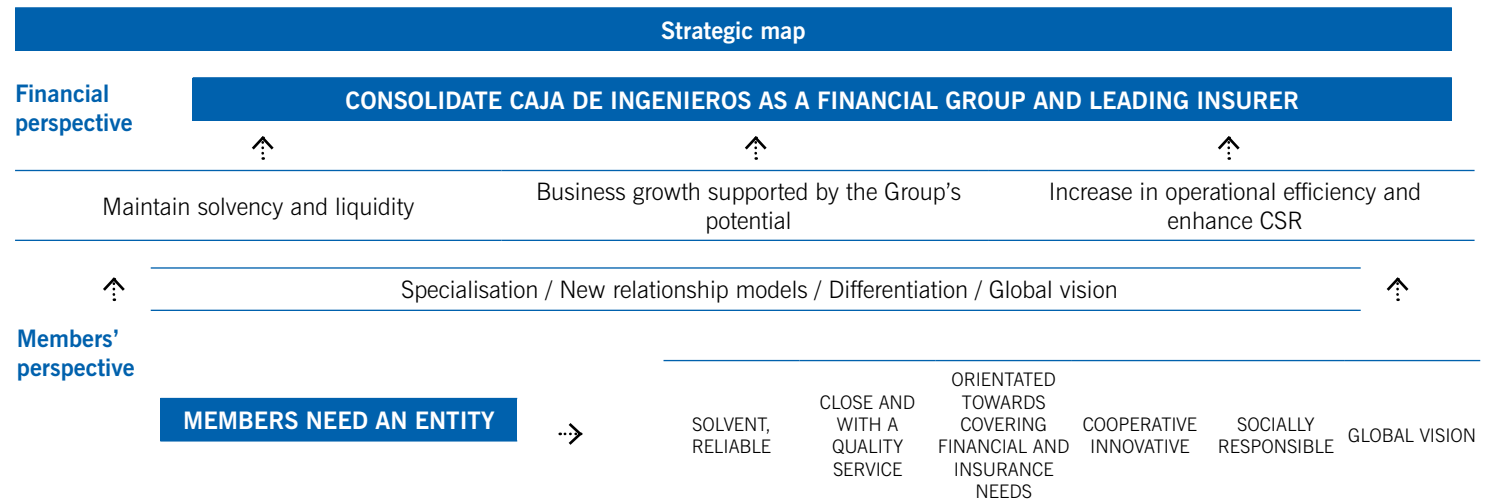
### 5.3. Impulsa Plan

In 2016, Caja de Ingenieros Group presented its IMPULSA 2019 Strategic Plan, an ambitious plan aimed at growth and transformation of the Entity based on training to achieve new goals and enhance the process of constant improvement in the value relationship that it enjoys with its members.

In 2017, the Entity continued working to achieve the objectives set by boosting digital support to members in order to increase the fluidity of their relationships. By doing so, special attention was paid to branch services through the advice and specialisation they provide, and to the digital channels with which members interact.

The results for the 2017 financial year are aligned with this Strategic Plan, which is expected to consolidate the Group's position as a benchmark for Spanish and European cooperative banking.

Our commitment to members			
	2015	2017	2019
NPS	54.1	44.7	57.9
satisfaction index	8.34	8.2	8.55
Corporate social responsibility			
Commitment to society	7.63	7.84	8.5
Total amount for projects (€ thousands)	413	503	1,000
Our financial targets			
CET1	14.49%	16.04%	>12%
ROE	8.61%	7.92%	>9%
Efficiency	62.33%	70.79%	<60%
Turnover	€ €	€ € € € €	€ € € € €



#### 5.4. Strategic review 2017

The 2017 financial year was complex from the perspective of financial institutions, since the challenge of zero or negative interest rates on business margins was more demanding than it was in the previous financial year. In addition, Spain's banking consolidation processes mean not only one more step towards the process of reducing service networks, but also a greater degree of concentration and, therefore, lower diversity in the supply of financial services, which have been capitalised on a strong investment in digitisation. Elsewhere, the year saw the culmination of Basel III, which enshrines capital requirements for the financial system that constitute a force for structural change of crucial importance for financial services. Finally, we should also mention the impact of political events in Spain that represented an idiosyncratic event for the whole sector, especially for entities based in Catalonia.

In this complex context, Caja de Ingenieros improved its interest margins, increased its revenue from the provision of investment services, improved the quality of its assets and closed the year with a surplus of own funds, measured by the CET1 fully-loaded capital ratio, an all-time high. Although there was a specific withdrawal of resources in the network outside Catalonia, the Group's turnover grew by 5.39% and the number of members reached 160,412, representing an increase of 12.49% and corresponding to 14% in Catalonia and 8% in the rest of the country. This fact is significant in the context of a process resulting from a climate of general social unrest, whose impact on the stability and functioning of the Entity's services was nil.

The year also saw a continuation of the trend that began in previous years regarding the diversification of the Entity's services. In this regard, it is worth noting that the Corporate segment accounted for more than 50% of new lending from the Group and asset management reached 47% of the Entity's total revenues, with insurance and methods of payment remaining at 24%.

During the financial year, we continued to invest in improving processes, IT, new services and digital service platforms for members.

During the financial year, we also continued to invest in improving processes, IT, new services and digital service platforms for members. Two new branches were opened in Mataró and Terrassa thanks to an agreement reached with Mútua General de Catalunya, which enables us to share spaces in its branch network, as well as other synergies in the fields of insurance and financial investments. Finally, within the environment of innovation, the IMAGINA LAB centre was created at and in collaboration with the Polytechnic University of Valencia. Its purpose is to promote financial services geared towards the needs of young people.

The cooperative structure of Caja de Ingenieros and the decisive implementation of the targets set out in Impulsa 2019 demonstrate our ability to respond to the needs of members in a context of increased demand for services and transformation of the activities of financial institutions.

## Trends and challenges

The banking system continues its transformation. In addition to macroeconomic challenges, Caja de Ingenieros faces a continuous increase in the service expectations of members; constant regulatory pressure that is reaching its implementation phase and, therefore, putting a heavy strain on systems, processes and people; and a disruptive digitisation process in terms of the scope and context of the service provision to members.

## *Improvement of the economic situation*

The growth of the Spanish economy remains robust in a context in which credit deleveraging of companies and families is sustained, although with a public deficit that, while complying with the stability pact, places the balance of public debt around 98% of GDP and poses significant challenges in scenarios of normalised interest rates. Elsewhere, reduced unemployment and increased business profits enable a closing of the distance between debt reduction and the granting of new credit, which represents a decrease of total lending in the economy of 1.5%, compared to 4.1% in 2016.

Caja de Ingenieros' lending policy remained faithful to its principles of consistency in the assessment of credit risk and prudence in the granting of new credit. In this area, it developed new mortgage financing products for individuals at fixed and mixed rates, and Eco and mediation credit lines through the EIF for companies, which were very successful.

## *Process of banking market consolidation*

With the disappearance of more than 70 banking entities since 2008, Spain has the highest rate of favoured banking concentration in the European Union due to, among other reasons, the search for efficiency in a large national market in a process of regression and with very high competitiveness in prices and business margins. In terms of cooperative banking in Spain, following the trend of the European financial market, it maintains a growing position and considers itself as a model of differentiated service compared to the predominant one.

For Caja de Ingenieros, banking consolidation opens up ample space for the financial cooperative model and involves focusing its strategy on tailoring its services to the needs of members, establishing relationships in the medium and long term and, in short, being committed to member satisfaction as an impetus for growing the Entity.

## *Growing expectations of members*

New technologies are accelerating service life cycles and innovation in digital services is under pressure from fintech companies in a context of society's high predisposition towards this type of financial services providers. Thanks to strong competitive pressure from the traditional banking market and the fintech phenomenon, society perceives the existence of a wide range of financial services

For Caja de Ingenieros, the satisfaction of members and their service expectations are the fundamental challenge and pillar to guide strategic, business and service processes. For this reason, profound changes have been addressed in the conceptualisation of services to members involving the merging of two important areas, commercial and digital banking, into a single Member Services Area in which the digital perspective acquires special significance. Similarly, new methodologies for member segmentation have been implemented according to different approaches, such as life cycle, profession or activity, which enable better adjustment of the value proposition.

### *Progression of digitisation*

Digitisation is changing the way we provide banking services and is also generating new opportunities. Caja de Ingenieros continually develops plans and actions to simplify and automate processes, including those related to member service, in an effort to increase the proximity of the Entity, expand the range of products available and improve the availability of services.

The digital strategy is not only proposed from a technological point of view, but also as a reinforcement to services in branches through expert staff with the ability to attend to members and address their needs in a personalised manner.

### *Constant regulatory pressure*

Regulatory pressure is reaching its most costly phase for entities: implementation. Lack of proportionality in regulatory requirements has meant, for non-systemic entities, an additional effort if we compare it with that of the whole sector in terms of economics, resources and time. Additionally, the requirements are not aligned with a correct assessment of risk according to the size, profile and business model of the entities and, consequently, they introduce additional costs that are not those generated by correct risk management.

Efforts in this regard, which particularly affect the areas of IT, Internal Control, Finance and Global Risk Management, have enabled us to fulfil the intense calendar of regulatory requirements. At Caja de Ingenieros, we believe that, beyond its consistency, this fulfilment is fundamental as a means of reviewing and improving business and service processes, as well as providing greater security to members, not only in the areas of solvency, asset quality and traditional risk elements for entities, but also in new areas such as cyber risk, information protection and money laundering.



The digital strategy is not only proposed from a technological point of view, but also as a reinforcement to services in branches through expert staff with the ability to attend to members and address their needs in a personalised manner.



## Strategic objectives and metrics

### GLOBAL DIGITAL STRATEGY

#### Objective

Caja de Ingenieros supports its service model and growth strategy by constantly implementing the opportunities that information technologies offer for financial services, which makes them fundamental to the Group's investment process.

#### Implementation

In recent years, the intensity of the investment process has been reinforced by the deployment of new branches/advisory centres, a model that has been widely welcomed by members. Improvement in terms of costs, speed and ease of use, as well as high availability of services, are key to establishing the dual vision of the service model, digital and expert, on which the Group's strategy is based in its search for excellence.


### HIGH GROWTH QUALITY OF THE MAIN LINES OF BUSINESS

#### Objective

Growth is based on high quality business activities and its correlation with the needs of members.

#### Implementation

The growth of Caja de Ingenieros' membership is largely explained by member satisfaction indicators, resulting in high levels of recommendation. The Entity has adopted highly vigorous service policies with the aim of offering high accessibility to products both in terms of costs and prices and the scope of the financial solutions provided. This translates into constant growth in the number of members, for whom Caja de Ingenieros is the first entity, and in a higher quality of its segmentation not only in terms of business volumes, but also age, life cycle, profession and gender. This strategic approach is enabling diversification in the typology of the Group's membership and its geographical location to be increased.



The growth of Caja de Ingenieros' membership is largely explained by member satisfaction indicators, resulting in high levels of recommendation.

## *DIVERSIFICATION OF BUSINESS AREAS*

### **Objective**

Caja de Ingenieros Group is defined as a financial insurance group and, as such, has a base of diversification that is defined in the first instance by the configuration of the group of companies that make up the Entity. Its insurance activities in life and non-life, management of assets and equity, complementary pensions and retail trade are areas of action that enhance the strength of the Group's economic model.

### **Implementation**

The investment made since 2013 in the development of Corporate Banking constitutes one of the most demanding challenges the Group has faced over a number of years of heavy strain in the Spanish financial system. One of its priority objectives has been to make progress in providing the Group with greater diversification in its businesses, while addressing a more complete segmentation of services to members. Retail banking is the basis of the Group's activities and it is in retail segments (young people, professionals, self-employed, families, senior citizens, SMEs, professional institutions and the social economy) that the foundations are laid for its business activities which are completed with corporate activities, such as capital markets, asset management and wholesale banking, which enable the Group's business risk profile to improve.

## *MANAGEMENT OF PRODUCTIVITY*

### **Objective**

Competitiveness is aligned with efficiency and productivity. In a financial market as mature and competitive as the Spanish, best practices in productivity management are essential.

### **Implementation**

Technology, business processes and service and training of the professional team are the three main areas of action around which the achievement of greater productivity revolves.

Investment in IT infrastructures and new business applications are priority objectives in investment plans such as Impulsa 2019 and those that are established annually. Likewise, the creation of process maps for all of the Group's areas, together with efficient service segmentation, enables the scalability of activities to be reinforced

without this being detrimental to service quality. Continuous review enables not only the elimination of redundant activities, but also an improvement in collaborative processes between the different areas and companies that make up the Group. Finally, the effort in training the professional team, as well as cross-sectional communication of the projects and challenges faced by the Group, makes it possible to advance the common objectives of improving productivity while strengthening service quality.

## STRENGTHENING CORPORATE CULTURE

### Objective

Caja de Ingenieros wants to be an excellent employer brand that enables its staff to grow within the framework offered by the corporate culture and the values of the Group.

### Implementation

Promoting our excellence as an employer brand and creating high-value jobs means promoting the development of the professional team through training, projecting in it the brand and corporate values of the Group. Confidence, credibility, proximity, transparency and, especially, cooperation are the elements that make up our strategy of developing relationships with staff, who also constitute Caja de Ingenieros' main asset.

## STRATEGIC MANAGEMENT PROCESS

IMPULSA 2019 establishes strategic objectives and challenges whose monitoring and management are periodic and reinforced by the annual business plan. This annual plan also anticipates new contexts and scenarios, such as the economic evolution of Spain, the financial markets and the social, technological and regulatory trends that the Group needs to consider in order to determine the lines of action and the most significant financial and management metrics to achieve the strategic objectives.

The adoption of a forward-looking vision highly focused on the needs of members converts business objectives into a fundamental variable when assessing the results of the Group in terms of member satisfaction.

Challenges	Metrics
<ul style="list-style-type: none"> <li>Preserve the solvency of the Group as a lever to generate shared value with members</li> </ul>	<ul style="list-style-type: none"> <li>Keep CET-1 above 14%</li> </ul>
<ul style="list-style-type: none"> <li>Improve in proximity with members, including digital banking</li> </ul>	<ul style="list-style-type: none"> <li>Digital members will account for over 65% of the total</li> </ul>
<ul style="list-style-type: none"> <li>Adapt to a financial/monetary context in a state of change</li> </ul>	<ul style="list-style-type: none"> <li>Increase recurring income by providing services up to 75% of the interest margin</li> </ul>
<ul style="list-style-type: none"> <li>Consolidate the visibility of the cooperative banking model</li> </ul>	<ul style="list-style-type: none"> <li>Progress towards achieving the membership figure set in the IMPULSA 2019 strategic plan</li> </ul>
<ul style="list-style-type: none"> <li>Reinforce Caja de Ingenieros' commitment to sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Incorporate sustainability criteria in methods of payment and lending</li> </ul>
<ul style="list-style-type: none"> <li>Make visible the social impact of the Group's CSR</li> </ul>	<ul style="list-style-type: none"> <li>Measurement in monetary terms of the Foundation's social impact</li> </ul>

## Strategic outlook for 2018

Caja de Ingenieros has maintained sustained growth over the last 10 years in all basic magnitudes (members, turnover, profitability indicators, etc.), remaining unaffected by the consolidation processes in the Spanish banking sector that have impacted more than 70 financial institutions.

This trajectory, together with complex events that have taken place in Spain, has highlighted Caja de Ingenieros' capacity for effective growth, the result of using surpluses aimed at strengthening financial and business strength, as well as remunerating members for their capital contributions.

The result is the high growth that the Group has experienced since the last quarter of 2017, a trend that is considered stable in the future and requires the achievement of high rates of productivity and efficient segmentation as a basis for a highly personalised service with top-rate digital support.

### Therefore, the challenges for 2018 lie in:

- 1) **Increasing the digitisation of the service** to members in terms of number of users, type of digital transactions, etc.
- 2) **Strengthening the service based on better segmentation**, a comprehensive range of services through product packaging and a proactive agenda of service activities.
- 3) **Reinforcing lending** to all business segments, individuals and companies, creating pre-agreed offer activities in the retail segment.
- 4) **Enhancing the branch network** in areas where the demand for services has experienced the highest growth.
- 5) **Adapting the profile of the Group's income statement**, reducing its dependence on the evolution of interest rates.
- 6) **Strengthening sustainability criteria** in all areas of the Group's activities.
- 7) **Promoting our positioning** as a European cooperative credit society.



# 06

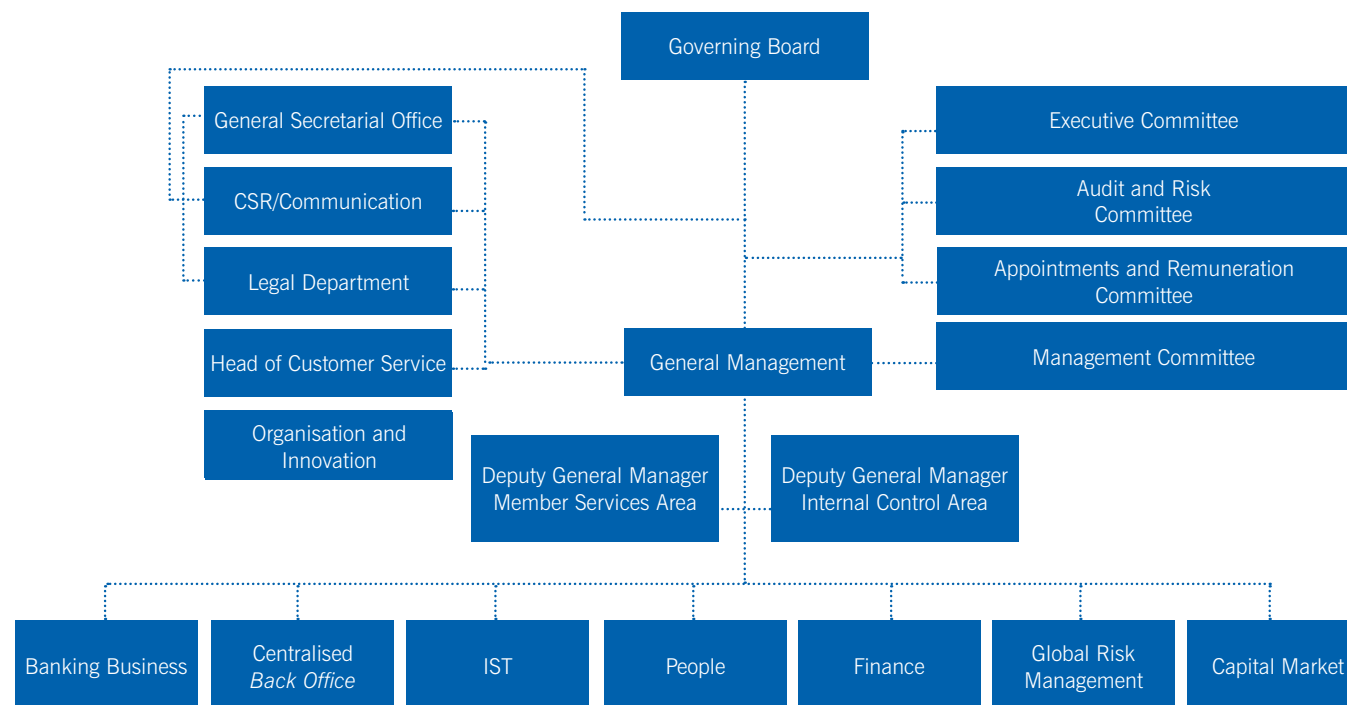
## ABOUT US

## 6.1. Corporate governance

### 6.1.1. Organisational structure

We have a firm commitment 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 determined an organisational 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 reflects 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.

### *Governing Board*

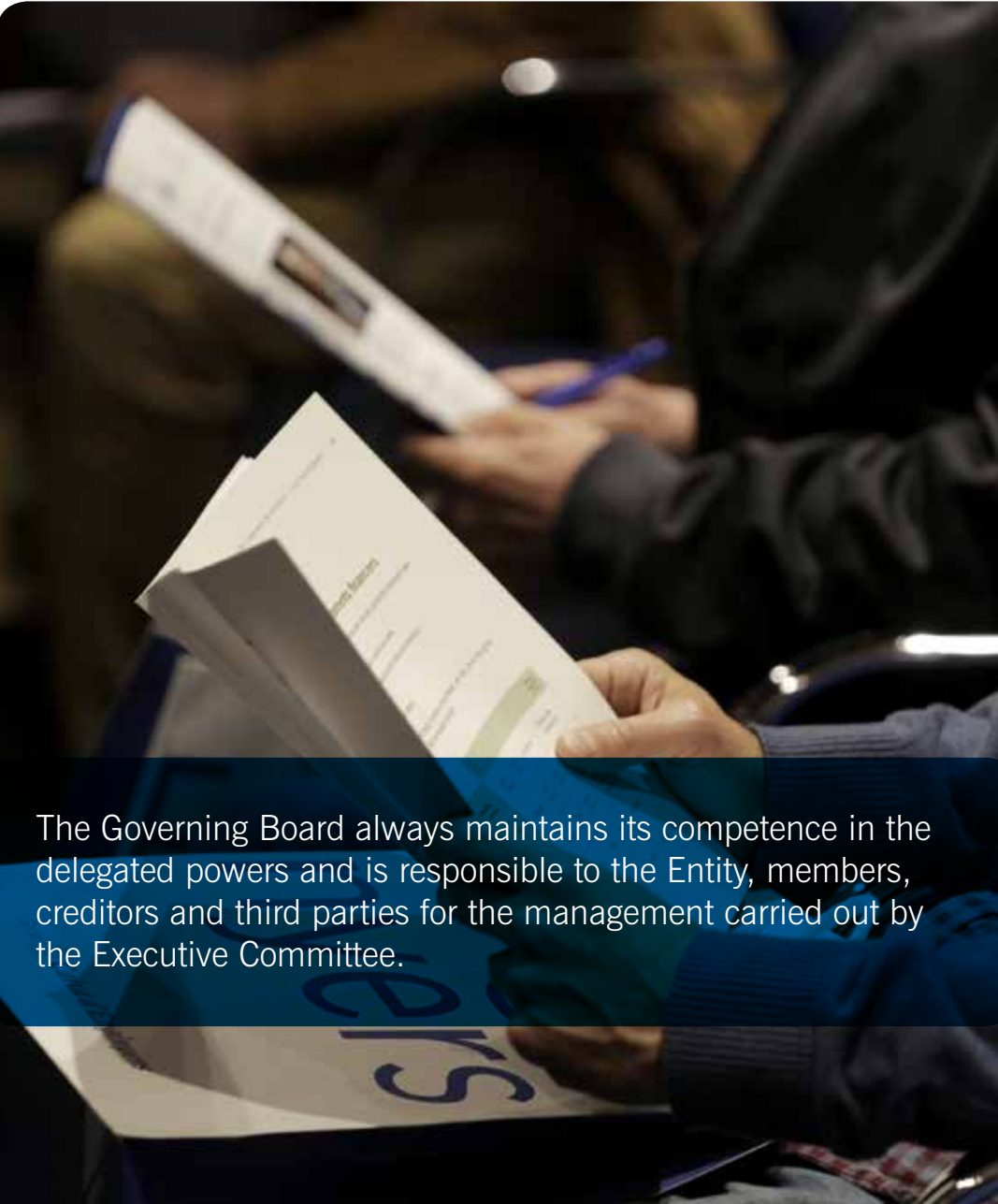
The Governing Board is the Entity's governing, management and representative body and currently consists of thirteen full board members: a chairman, deputy chairman, secretary and ten others. No board member has the status of executive and the vast majority are independent. Twelve of them are elected 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, deputy 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.



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### *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 Internal Control 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.

### *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 organisation 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.

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.

### *Management Committee*

Its function is to implement the Group's strategic objectives and, to that end, it has general powers in terms of organisation 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, which implements the Entity's strategic lines.
- Caja de Ingenieros Group Management Committee, which implements the strategic lines of all of the companies that make up the Group.

The Management Committee implements the Group's strategic lines and coordinates the different areas of business, support and control and other key areas of the Entity. It meets at least once a month.

### *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 risk and the issuing 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.



### 6.1.2. 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*

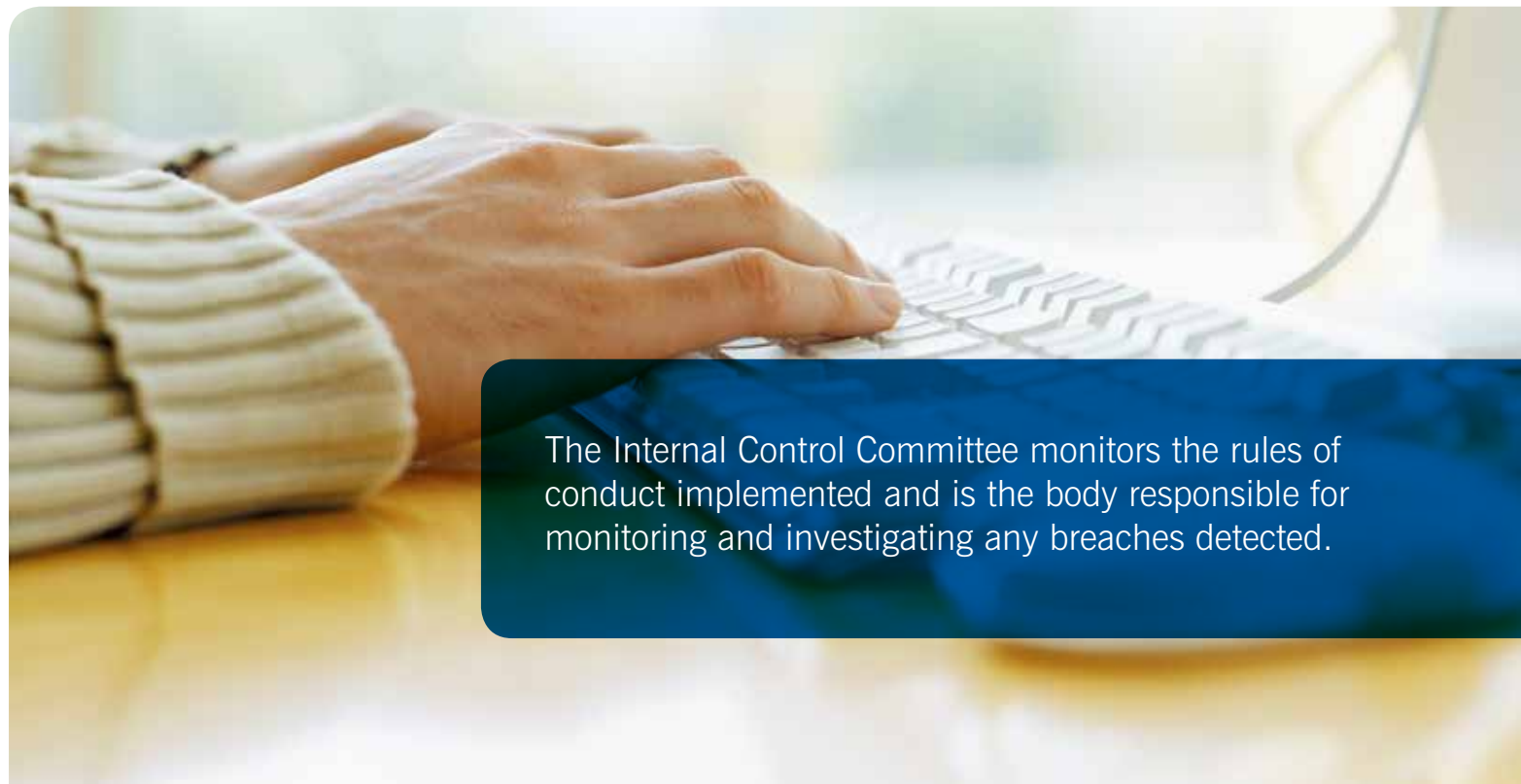
The Code of Ethics establishes the values, principles and rules that govern the work performed by the Entity and its employees. The Code promotes the carrying out of professional tasks with criteria of honesty, integrity, excellence, accountability and transparency.

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.



The Internal Control Committee monitors the rules of conduct implemented and is the body responsible for monitoring and investigating any breaches detected.



### *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

The Remuneration Policy defines the principles that promote coherent remuneration in line with the Group's strategic objectives.





### 6.1.3. Team

#### *Workforce profile*

A young, well-trained professional team committed to the values of the Group with the capacity to acquire responsibilities and grow professionally.

Our team's motivation, experience, professionalism and commitment to the values of the Group are fundamental to enabling us to continuously improve our services to members. Training, one of the Entity's main commitments, helps us to consolidate our efforts to create high-quality jobs and enables staff to develop their professional careers with excellence.

459

professionals belong to  
Caja de Ingenieros Group  
+3.38% vs. 2016

416.58

employees make up  
the average staff

96.64%

with an open-ended contract

99.27%

work full time

9.72

staff turnover rate

69%

with degree

56.83% 43.17%

men

women

40.55

average age



### *Caja de Ingenieros as employer*

Caja de Ingenieros Group, in its IMPULSA 2019 Strategic Plan, is committed to reinforcing its human resources management model, deepening the development of talent and professional careers. The Group had 459 members of staff at the end of 2017.

### *Quality employment*

Caja de Ingenieros attracts and retains the loyalty of talented professionals by offering high-quality employment conditions. In this regard, 96.64% of employees have an open-ended contract and 99.27% are full-time.

Delegation of responsibilities is promoted and entrepreneurship is encouraged among employees, with them being given the autonomy to carry out their ideas. Several initiatives are directed towards this end, such as a suggestion box, participation in work groups and goal-orientated management.

# 43%

women

a percentage that has  
remained stable in  
recent years.

# 14

maternity leaves

# 9

paternity leaves



### *Training the professionals of the future*

Caja de Ingenieros Group offers a wide range of training programmes to its staff. In 2017, 30,002 hours of training were provided, broken down as follows:

- 27% in the field of insurance
- 21% in the field of banking and finance
- 21% in the field of languages (English)

The various training programmes had 1,942 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*

Equality of opportunity 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 organisation 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, such as 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. The breakdown of the workforce by gender has remained stable in recent years and both remuneration and working conditions are equal. In certain professional categories, there is a greater presence of men than women.

### *INTERNAL TRAINING*

43%

women

1,942

participants

30,002

training hours

72.02

staff training hours

80%

of the commercial network has certifications to be able to advise based on MiFID II



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### *Celebration of the 50th anniversary with the internal team*

The 50th Anniversary of Caja de Ingenieros was a great opportunity to strengthen the links between the people that make up our team. Throughout the year, numerous events, many of which were open to staff members' families and retired colleagues, were organised with a particular focus on sporting and charitable activities.

Notable among these initiatives was a competition to find the colleagues who best represent the values of Caja de Ingenieros.

Charity fundraising events were also organised to mark the 50th Anniversary of the Entity. 2017 saw the creation of five teams to participate in the Oxfam Intermón Trailwalker 2018 race. Donations to the value of 1,500 euros, which each team needs to raise in order to participate, will go to the charitable organisation Oxfam Intermón.



## 6.2. Service to members

### 6.2.1. Member relations model

#### *Cooperative and socially responsible model*

Our members are the hub about which all of our activities revolve and the main objective towards which Caja de Ingenieros is orientated. 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 prioritises general interest and common good over private interests, thereby contributing to territorial and sectoral development.

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 asset

management in order to guarantee 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.

A model of organic growth that preserves a culture of maintaining member relations reflected in an extremely high percentage of recommendation, which stands at 72% of new membership registrations in recent years.

This led to an NPS (Net Promote Score, according to STIGA) of 44.7% in 2017, which, compared to the sector average of +0.1%, reflects our members' high degree of commitment to the Entity. Similarly, the OCU, through a study carried out in 2017, placed us in second place out of all financial institutions in Spain regarding the level of satisfaction of customers.

## 24 hours a day, 365 days a year



MOBILE Banking  
**MOBILE Banking**



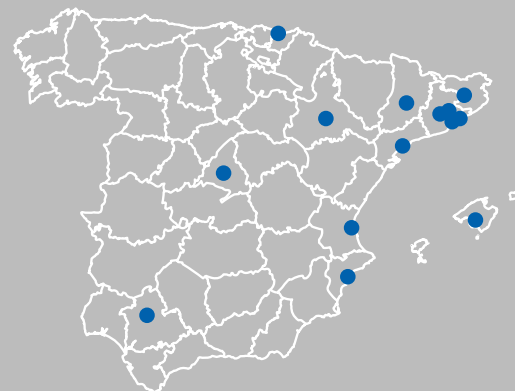
ONLINE Banking  
**app**



TELEPHONE Banking  
**www.caja-ingenieros.es**  
**902 200 888**  
**+34 932 681 331**  
**Monday to Friday**  
**8 am - 9 pm**

## 27 branches always at your service

Opening hours  
8:30 am - 7:00 pm



**Alicante · Barcelona**  
**Bilbao · Girona · Lleida**  
**Madrid · Málaga · Mataró**  
**Palma de Mallorca**  
**Sant Cugat del Vallès**  
**Seville · Tarragona**  
**Terrassa · Valencia**  
**Zaragoza**



### *New structure*

Caja de Ingenieros' activities revolve around quality of service to members, a key factor in making the Entity stand out from the rest. The development of our corporate image, products, applications and technological tools continuously improve quality of service and the value proposition of the service to members.

To support a strategy in which members are at the centre of all of our activities, 2017 saw the creation of a Member Services Area, which represents a profound and innovative transformation of the traditional commercial area.

This new structure is based on a 360° view of each member in order to meet their needs and requirements from a global perspective, according to their personal, family, professional, business and lifestyle circumstances.

### *2017 evolution*

In 2017, membership increased by 12.49%, by 14% in Catalonia specifically and 8% in the rest of Spain, providing us with a total of over 160,000 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 5,750 millions of 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 9.66% and the volume of investment products by 11.07%. Similarly, the number of Discretionary Portfolio Management Service contracts increased by 54%; and the volume managed in this service for our members exceeded 211 millions of euros. For its part, financing was another key element and the number of mortgages formalised by our members rose by 20.1%.

In terms of branches, we continued to expand our network with the opening of three new locations that will enable us to continue providing a close and high-quality service to our members.

In Valencia, we launched a new branch concept, ImaginaLab, aimed at our youngest members located on the campus of the Polytechnic University of Valencia. We also expanded the main branch in the city.

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Elsewhere, as part of a collaboration agreement signed this year with Mútua General de Catalunya (MGC), we opened two new branches in Terrassa and Mataró, located on Mútua's premises. These branches are part of a pilot programme that aims to extend our territorial presence and could be expanded to other cities where MGC has premises.

In 2017, Caja de Ingenieros, in line with our aim of improving the service we provide to members, signed an agreement with Cardtronics, the largest ATM operator in the world, which is in the initial phase of its implementation process in Spain with the installation of a significant number of new ATMs.

Thanks to this agreement, members can now withdraw cash free of charge from machines that operate under its CashZone brand and enjoy the same conditions offered by the other ATMs in our network.

CashZone ATMs are located in busy public places such as supermarkets, shopping centres, garages and bus and train stations.



### 6.2.2. Digitisation

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 personalised treatment and greater advice coexist.

The reality is that face-to-face or virtual use of the Entity's 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 non-contact 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 organisation 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.

The digital transformation process is based on three key points:

1. We have a structure that promotes digitisation and a specialised team.
2. We place the experience of members in the centre in order to adapt our relationship model to individual needs across all channels, giving rise to new value propositions, products and services.
3. We implement technological solutions to enable personalisation 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.

## Figures

In 2017, our online activities continued to grow, especially in the mobile channel, with visits increasing by 38% compared to 2016.

Through non-face-to-face channels, transactions amounting to 1,900 millions of euros were managed, representing an increase of 25% over the previous year.

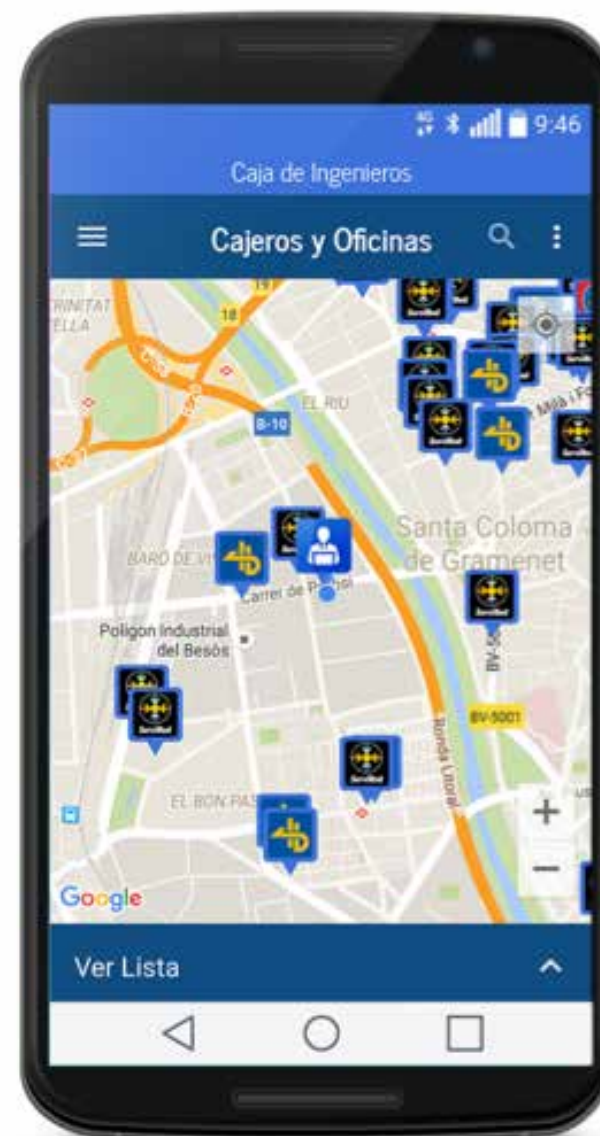
More and more members are opting for a digital relationship with the Entity. During the past year, the average number of members that accessed our ONLINE Banking or MOBILE Banking services on a regular basis to consult their positions and carry out financial transactions reached the figure of 77,000, representing 10% more than in 2016. In specific terms, there were more than 10 million visits, a rise of 11%, and 69 million transactions were made through these channels, which represents an increase of 14%.

Consolidation of the use of non-face-to-face channels by our members is particularly notable, and this is also borne out by the 'KPMG Report (April 2017) - The level of digital maturity of the financial sector in Spain,' which places us amongst the highest percentages of the sector both in terms of users with access and assets, and transactions carried out using electronic banking.

It is important to highlight how many new members are attracted through non-face-to-face channels.

The launch of the *Become a member without moving* service enabled new members to register and manage their accounts through these channels without having to visit a branch. 1,733 members registered through this service, representing 10% of total registrations in 2017.

Every day, more than 28,000 unique users visited our public website. We received more than 5,700 application forms for services through our website and ONLINE Banking, 174% more than the previous year.





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**88%** of Caja de Ingenieros members **have access to electronic banking**, which is one of the highest percentages among entities in the sector for access to electronic banking.

**81.7%** of Caja de Ingenieros members **actively accessed electronic banking in 2017**, which is one of the highest percentages among entities in the sector for active users.

**95.4%** of Caja de Ingenieros transactions are carried out using **electronic banking**.

#### Users with access to electronic banking

Percentage range of users with access to electronic banking	<25%	25%-50%	50%-75%	>75%
Percentage of entities according to range	0%	50%	29%	21%

#### Active users of electronic banking

Percentage range of users with access to electronic banking	<25%	25%-50%	50%-75%	>75%
Percentage of entities according to range	7%	67%	13%	13%

#### Transactions carried out using electronic banking

Percentage range of users with access to electronic banking	<10%	10%-25%	25%-50%	>50%
Percentage of entities according to range	0%	20%	40%	40%



## Projects

In line with our Strategic Plan's actions geared towards digital transformation, 2017 saw the launch of a new version of the MOBILE Banking app, which includes a Caja de Ingenieros branch and ATM geolocator.

The mobile channel established itself as the fastest growing non-face-to-face channel, up 38% in visits and 55% in app downloads.

The MOBILE Banking app also incorporated the IngenierosPAY service (attached to the Bisum platform), which facilitates immediate payments from mobile to mobile between individuals by simply providing the device's telephone number. To use this service, it is not necessary to be a member of Caja de Ingenieros or to know the recipient's account number.

In very few months, 12% of MOBILE Banking users registered for this free service, 62% more than we would expect for an entity of our size. The average amount per transaction is 54.60 euros.



In February, we also upgraded the Caja de Ingenieros website to adapt it to the new service orientation that we are implementing.

This upgrade aims to reinforce three of the Entity's basic aspects:

### 1. Transparency

The environment and market require us to provide greater transparency in our activities. New rules, greater monitoring of compliance by regulators and member information requirements increase day by day. Our upgraded website provides users with all of the corporate information they need in a highlighted and complete manner, in full compliance with regulatory requirements. The concept of transparency is applied across all of our activities and helps us to maintain the confidence of existing members and attract new members.

### 2. Advice

Advice adds value to our relationships with members in all areas: financial, asset management, pensions and insurance. For us, advising involves knowing members from all dimensions in order to make a value proposition that helps them manage all of their needs globally. It also enables us to stand out from our competitors by offering a personalised service carried out by qualified professionals in constant training.

Our concept of advice involves enhancing the loyalty of our customers through a service made up of numerous products that can adapt to their needs.

The menu of our website prominently displays how members can access all of the advisory services we offer:

- Investment advice
- Financial and asset advice
- Pension and retirement advice
- Insurance and asset risk management advice
- Company financing advice



### 3. Member orientation

The new website marks a change from a traditional design organised according to product range to a structure that promotes a range of services tailored to different segments or member profiles.

Our goal is to provide complete solutions to each member according to their needs and based on quality of service.

The website enables members to access all solutions depending on their profile and with only one click.

‘Solutions for you’:

- Personal Banking
- Corporate
- Young people
- Individuals
- Self-employed and Professionals

To facilitate the use of the website, new usability elements have been incorporated:

- Menu structure that reinforces our values and facilitates access to sections sought
- Simple and visual design
- Intuitive, fast and secure browsing
- Access to ONLINE Banking always visible so that it can be done from any web page

In a consistent manner, in line with the public website, ONLINE Banking has also been upgraded:

- More intuitive design for better browsing
- Clearer design and more convenient to use
- More information on cards for greater monitoring of position

- Numerous new functionalities: performing partial redemptions, contracting and making contributions to systematic savings plans (PIAS) or long-term individual savings insurance policies (SIALP), obtaining proof of transfers, etc.

New functionalities in the areas of savings and investments have also been incorporated:

- New fund comparison tool, which enables customers to follow the evolution of our funds and recommended short list in detail, compare them with the benchmarks and subscribe to them directly without having to go to a branch.
- The option to operate online in the MAB alternative stock market.
- The possibility of subscribing to a specific list of ETFs through the online channel.

- The option to carry out an online investor profile test, both of advisability and suitability, in order to provide the most appropriate and personalised service to our members.

In the area of day-to-day management, and among other features, we have improved the information visible in the global position and card movement sections, and we have added the functionality of activating and blocking a card, all with the aim of making procedures as simple as possible.

Finally, another of the projects that we have launched is an extension of the automatic Telephone Banking service, now available 24 hours a day, 365 days a year. The 24x7 automatic service enables our members to carry out consultations through this telephone channel whenever they require it.

### 6.2.3. Personalised services

#### *Segments*

Member orientation represents a radical change in our relationship processes with members. It is now necessary to know 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 segments of members to enable us to improve and better personalise the services we offer them.

After detailed study, we identified the key segments under 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 organisation, as it facilitates the identification of service demands and, consequently, enables us to react swiftly to them.





Our challenge in 2017 was to fully personalise the services we offer through flexible and global solutions (financial, insurance and pensions) aimed at the following segments:

### 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 personalised 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.

They also have access to exclusive information about markets, company reports and sector news through ONLINE Banking.

### Young people

The new digital generations have specific needs in terms of service and financing. With special attention to their education, the beginning of their employment careers or their entrepreneurship projects.

IMAGINA is a 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 a Caja de Ingenieros 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 can be adapted to all families: those that start a project in common, those that grow, those that find their home, those that seek the best education and even those that see their children start 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 professionals have the maximum experience and professionalism to 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 individualised proposal with the best solutions and coverage for each particular case.

We respond to the financial needs of families.



## Professionals

Professionals evolve continuously throughout their working lives. Financial services therefore require different proposals depending on their time of life.

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 personalised 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 individualised 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.

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.



## Corporate

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 minimising their possible impact.

To support and give stability to their daily activities, we recommend the most practical and advanced personalised options: credit accounts to facilitate business financing, invoice advance payment policies and grants 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 personalised solution according to the business.

At Caja de Ingenieros, we have company specialists who can provide the most appropriate services and financial solutions according to the business, whether in the short, medium or long term.





## Advice

High-quality and personalised financial services that meet the needs of members and are based on advising and guiding them in the decision-making process.

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

- Asset management
- Personal risks - insurance
- Project financing

## Asset management

Its 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 (generation of value, optimisation of portfolios, diversification).
- Personalised design of investment portfolios based on the financial perspective of our investment management team.
- Financial-fiscal optimisation.
- Optimisation 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 personalised 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.



## Insurance Advisory Service

In 2017, we implemented a new service with a 360° view to thoroughly cover all of our members' insurance needs.

The new service is based on analysis and assessment of risks derived from personal circumstances, review of insurance positions and their coverage, and contrast with needs to arrive at a personalised 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.

Our commitment is to simplify the management of insurance through a global service that also enables us to obtain the best price for members from the companies to which risk is transferred.





## 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 personalised 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 personalised service.



*Transparency and protection  
in the areas of financial investment:  
MiFID II*

In line with the implementation of the new MiFID II regulation, we have set in motion a set of innovations that improve not only the protection and transparency of members, but also the services of markets and financial instruments. New online analysis and financial reporting tools, new products available for contracting and a new advisory service are the new developments.

All investment products marketed will incorporate, in accordance with the objective of improving transparency and investor protection, the following attributes:

**1. Specialised 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.

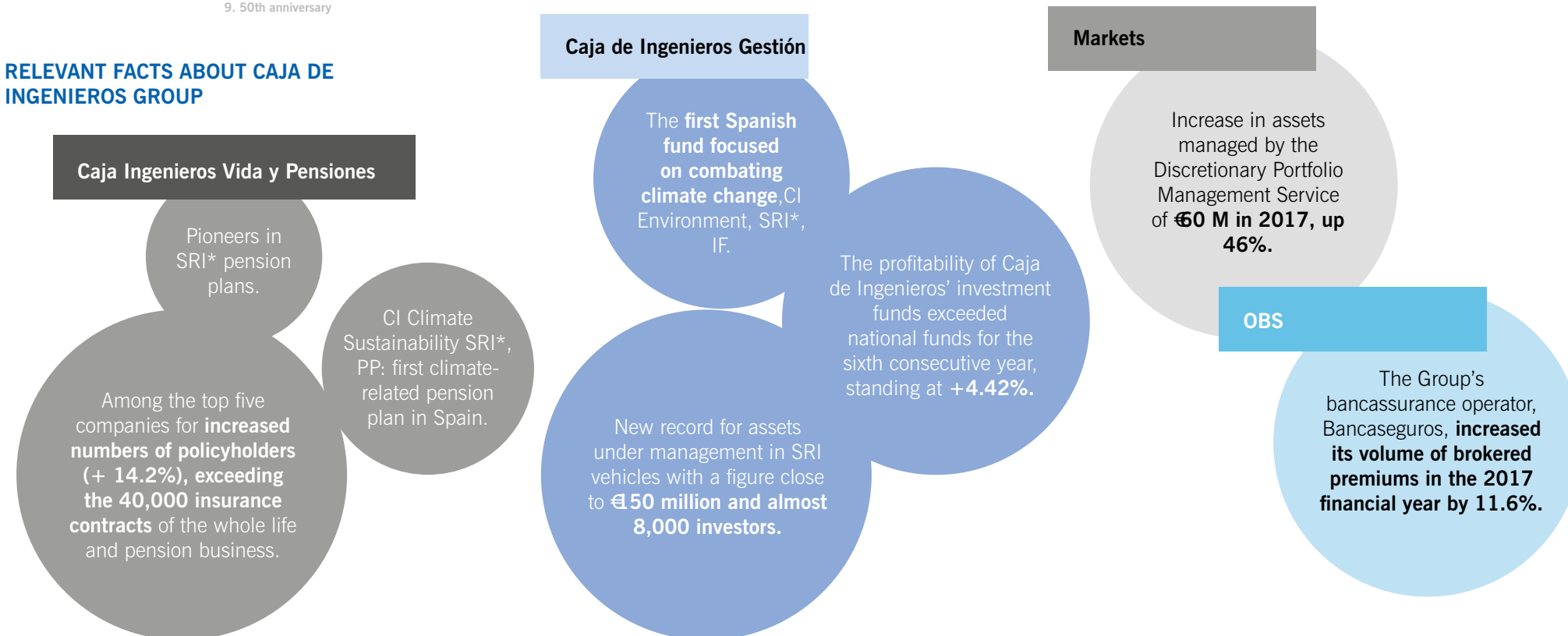
**2. Adoption of a dependent advisory model to support members in their investment decisions.** Investment recommendations will be adjusted exclusively to investment objectives, taking into account the degree of risk aversion, taxation and member time horizons.

**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.

**5. Corporate governance.** The goal is to increase the level of protection for investors through greater transparency in the information provided and greater adaptation of the products to each member profile.

## RELEVANT FACTS ABOUT CAJA DE INGENIEROS GROUP



## Banking business

### Assets

Increase in lending to members: **1,624 millions of euros, up 6.23%**.

**Lending to companies** was **8.97% higher** than the previous financial year.

**Methods of payment:**  
**€10 M** reached in the payment of purchases with cards, an increase of 11.65%, 7.95 points above the sector.

**13,352,629 purchase transactions**, an increase of 14.29%.

### Liabilities

**€1,993 M of balances in accounts and deposits**, a figure that represents a reduction of 1.80% compared to 2016.

**Current accounts: increase of 14.09% in current account balances**

\*SRI: Socially responsible investment.

1. Letter from the Chairman
2. Letter from the General Manager
3. Main indicators
4. Environment and regulation
5. Strategy
- 6. About us**
7. Risk management
8. Financial report
9. 50th anniversary

### Personal loans

- Consumption Loan
- Investment Loan
- ECO Loan
- Payroll Loan
- Student Loan
- Postgraduate Loan
- Imagine Loan
- Pension Plan Loan
- Syndicated Loan
- Schuldschein Loan

### Mortgage loans

- Home Mortgage
- Mixed Mortgage 5, 10 and 15
- Universal Mortgage
- Fixed Mortgage
- Exploitation Mortgage

### Credit facilities

- Personal Credit
- Professional Credit
- Corporate Credit
- Engineers' Credit
- Invoice / Grant Advance Credit

### Secured credit facilities

- Credibolsa
- Moveable Property Secured Credit

### OCI Loan

### EIF Loan

### Guarantees

- Guarantee lines
- Technical Guarantee
- Financial Guarantee

### Mortgage income

### Secured loans

- Monetary Secured Loan
- Financial Investment Loan (Multi-investment)

### Vehicle renting

- Ingenium Renting

### Credit cards

- Visa Premier
- Visa Classic
- Visa Business
- Visa Joven Move
- Via-T

### Debit cards

- MasterCard Base
- MasterCard Socio Cooperativo
- MasterCard Joven Move

## Methods of payment

### Current accounts

- Current Account
- Professionals' Current Account
- Savings Account

### Deposits

- Term Deposit
- Online Deposit
- Young Person's Deposit
- Deposit Fund

### Investment funds

- CI Global, FI
- CI Borsa Euro Plus, FI
- CI Iberian Equity, FI
- CI Borsa USA, FI
- CI Emergents, FI
- CI E Environment ISR, FI
- CI Renda, FI
- CI Fondtesoro Curt Termini, FI
- CI Premier, FI
- Fonengin ISR, FI
- CI Gestió Alternativa, FI
- CI Gestió Dinàmica, FI

### Guaranteed investment funds

### Life savings

- Supplementary Pensions
  - Individual Pension Plans
  - CI Global Sustainability ISR, PP
  - CI Euromarket RV 75, PP
  - CI Climate Sustainability ISR, PP
  - CI Eurobond RF 100, PP
  - CI Multigestión, PP
  - CI Skyline, PP
  - PP de los Ingenieros
- CI Plan de Previsión Asegurado
- Occupational Pension Plans
- CI Plan de Previsión Social Empresarial
- Collective Life Savings Policies
- Collective Life Risk Policies
- Savings insurance
  - Plan Futuro 5 Sialp
  - CE Pias
  - CE Pias Joven
- Life Risk Insurance
  - CI Protección Personal
  - CI Protección Personal Financiación
  - CI Protección Personal Autónomos
- Income Protection Insurance
  - CI Renta Vitalicia Capital Constante
  - CI Renta Vitalicia Capital Decreciente

### Management and investment services

- SGDC Insignia
- SGDC 70/30
- SGDC Bolsa Premium
- Prompt Advice Service
- Investment funds of international managers
- Ingenierosbolsa (equities, ETFs)
- Public Debt and Corporate Fixed Income
- Currency Market

## Assets

## PRODUCTS AND SERVICES

## Liabilities and investment products

## Insurance

- Home
- Car
- Health
- Death periodic premium
- Death single premium
- Payment protection
- Travel
- Accident
- Life

- Life single premium
- Life self-employed
- Business
- SME
- Civil liability
- Professional civil liability
- Directors and officers liability insurance (D&O)

### 6.3. Social projects

#### 6.3.1. Education and Promotion Fund

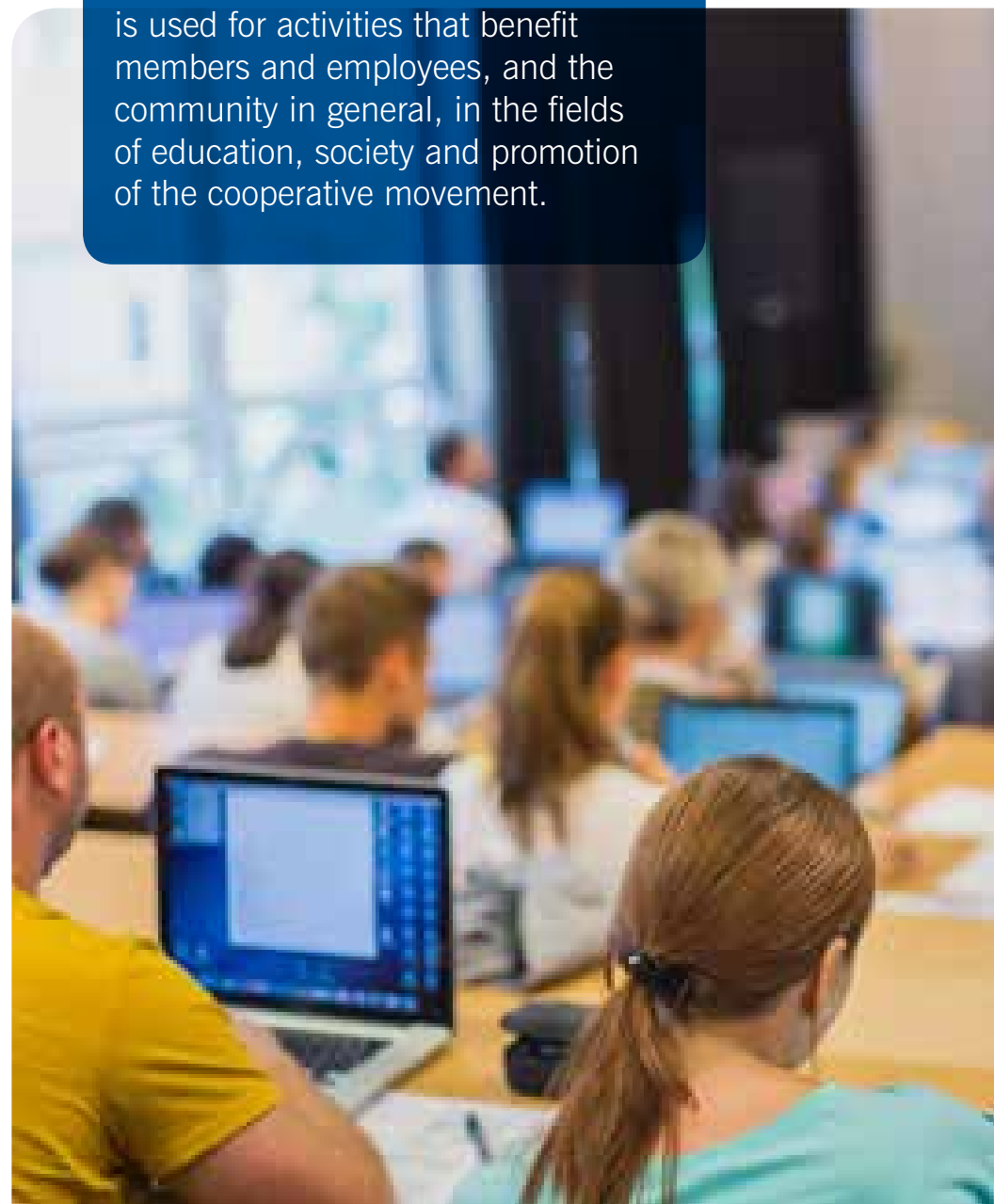
The Entity allocates 10% of its annual net surplus to the Education and Promotion Fund, which is used for activities that benefit members and employees, and the community in general, in the fields of education, society and promotion of the cooperative movement. The fund was created in accordance with 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.
- Publicising 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	2017	2018
	Application	Budget
<b>Description</b>		
Member and employee training	318	375
Inter-cooperative relations promotion	13	35
Cultural promotion of the environment - Foundation	250	450
<b>Total</b>	<b>581</b>	<b>860</b>

The Education and Promotion Fund 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.





### 6.3.2. Caja de Ingenieros Foundation

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

The Board of Trustees is the body responsible for drawing up the Foundation's annual plan, which outlines its main lines of action aimed at improving quality of life and social and work reintegration, especially in relation to the most disadvantaged groups, protection of the natural environment, innovation, training and professional excellence.

In its seven years of history, the Foundation has channelled all of Caja de Ingenieros' social projects and has consolidated itself as the Entity's vehicle for implementing its social commitment.

Caja de Ingenieros has continued with the carbon management strategy initiated by the Foundation in 2011. As in previous years, in 2017, we offset the emissions that are inevitable in the exercise of our activities by financing Clean CO<sub>2</sub> Certified projects, which contribute to the reduction of greenhouse gases.

Specifically, more carbon credits were acquired from the Bandeira and Capelli Ceramics Project (Brazil), whose aim is to replace the use of native wood from forests in the process of deforestation with existing renewable biomass in the region, resulting in a reduction of greenhouse gases associated with the original activity. In addition to its obvious environmental advantages, this project also produces other additional benefits for the local population and area.



**+ 2.7**  
millions of euros in  
collaborations

**270**  
projects promoted

**224**  
scholarships and awards

**600**  
candidates in competitions for  
entrepreneurs

**+ 1,530**  
members enrolled on courses



## SOCIAL IMPACT CONSULTING

One of our objectives is to measure the impact of the projects and collaborations that we carry out.

The Caja de Ingenieros Foundation carried out a study to calculate the social impact of each of the 52 projects in the 2017 financial year. For this, it had the support of a specialist external consultancy that followed the approach of Amartya Sen, a Nobel Prize in Economics winner, used to analyse social progress and human development in all countries of the world.

This analysis methodology is carried out in four phases:

Phase 1: Project analysis (establishes the framework of action).

- Phase 2: Economic assessment (of the project, means of communication and calculation of social return).
- Phase 3: Formulation of results (results, *rankings*, recommendations).
- Phase 4: Drafting of the report (drafting and presentation of the final report).

**Thanks to this complex algorithm  $\mathcal{A}(X_i) = \{b_i/b_i = f_i(c(X_i)/Z_i, Z_{\theta}, Z_s)\} \forall f_i \in F \text{ and } \forall x_i \in X_i\}$  and with the information from surveys and interviews, we reached the following conclusion: THE VALUE OF EVERY EURO THAT THE FOUNDATION ALLOCATES TO SOCIAL PROJECTS IS MULTIPLIED BY 3.**

That is to say, the social value generated by the Foundation is three times greater than the monetary investment made.

These results enable us to support a better selection of future projects in the coming years, provide indications about projects whose social impact can be improved and position the Caja de Ingenieros Foundation among the best practices of social projects, optimising the impact of the resources available.

### 6.3.3. CSR

#### *The environment*

Protecting the environment is a priority commitment in our corporate social responsibility policy, which is present across all of our areas of activity.

Throughout 2017, we continued to promote initiatives for environmental improvement, including:

- Minimisation of paper consumption with the introduction of environmental criteria in the design of operational documents.
- Enhancement of digital banking, which enables interaction with members through the Internet and mobile devices and the sending of correspondence electronically.
- Purchase of FSC-certified paper originating from responsibly managed forests.
- Use of automation and control systems and equipment in offices and branches to reduce energy consumption.

- Use of building automation systems for heating and air conditioning, lighting and other energy-consuming facilities.
- Use of energy-saving light bulbs in branches.
- Incorporation of motion sensor systems in passageways.
- Offsetting of carbon emissions generated by the Foundation's activities with the funding of Clean CO<sub>2</sub> Certified projects that contribute to the reduction of greenhouse gases.

True to this commitment to the environment, the Foundation collaborated in a study carried out by ESADE on the 'Low Carbon Economy.' The study, which was presented in 2017 on the basic sectors of the economy, such as food and finance, had the aim of raising awareness among the population about issues related to carbon footprints.

With the aim of obtaining a certificate of exclusive use of green energy, at the end of 2016, the supply of green energy (renewable sources) to all of the companies of the Group was contracted.

A new 'Sustainability Report' for the 2016 financial year was drafted and published following the G4 Guidelines of the Global Reporting Initiative. This report covers aspects relating to the economic, social and environmental scope of the activities of the companies that make up Caja de Ingenieros Group, including

measuring, disclosing and rendering accounts before internal and external stakeholders in relation to the performance of the Group's companies with respect to our strategy and sustainable development goals.

The report was drafted in accordance with the standards established in the G4 Guidelines of the Global Reporting Initiative and according to the AA1000 standard on the commitment of stakeholders.



### *Socially responsible investment*

Caja de Ingenieros continues to innovate to offer its members products that are consistent with its commitment to the environment. In 2017, three new products were created to promote the sustainability of the real economy and long-term return.

- CI Environment SRI, IF, is the first CO<sub>2</sub> fund in Spain with the clear purpose of promoting the fight against climate change through investment in companies.
- 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.
- 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.

Since 2016, Caja de Ingenieros has been the only cooperative credit society that is a member of Spainsif, a non-profit association that is made up of different entities interested in promoting socially responsible investment in Spain. In June, as part of Spainsif's Responsible Investment Week, the executives of the Group companies, Caja Ingenieros Gestión and Caja Ingenieros Vida y Pensiones, organised a seminar entitled 'Decarbonisation of the economy and the role of SRI as a lever of change.'

In relationships with our members, we have chosen to offer them responsible investment alternatives such as Fonengin SRI, IF (the largest SRI investment fund in Spain) and the CI Global Sustainability SRI, PP, pension plan. Both products lead their respective categories.

Moreover, since 2014, Caja Ingenieros Gestión has adhered

*Signatory of:*



Caja de Ingenieros, first and only cooperative credit society member of Spainsif.



to the international principles of responsible investment (PRI). UNPRI is an organisation whose initiative is to promote the application of extra-financial criteria in the making of investment decisions. Its key partners are the UNEP Finance Initiative and the United Nations Global Compact, both organisations linked to the United Nations. For Caja de Ingenieros Gestión, SGIIC, being part of this organisation means strengthening its orientation towards a sustainable management model.





### *Workshops and lectures for members*

Workshops and lectures are the best way of providing members with information. In 2017, 13 practical workshops aimed at members were arranged and led by our specialists, who provided information on the functioning of Caja de Ingenieros' applications, products and services.

The meetings enabled us to address current issues related to areas of interest to members. One such meeting that stood out was entitled 'Invest in the Europe of the future. Brexit, the new Macron-Merkel European front,' held at the Barcelona Stock Exchange on 4 July, which speculated on the future situation in Europe after Brexit, as well as its opportunities and threats. An essential meeting for managers in Caja de Ingenieros' Capital Markets Department and executives of the securities company, NORBOLSA, an entity owned by Caja de Ingenieros.

**502**  
registrations

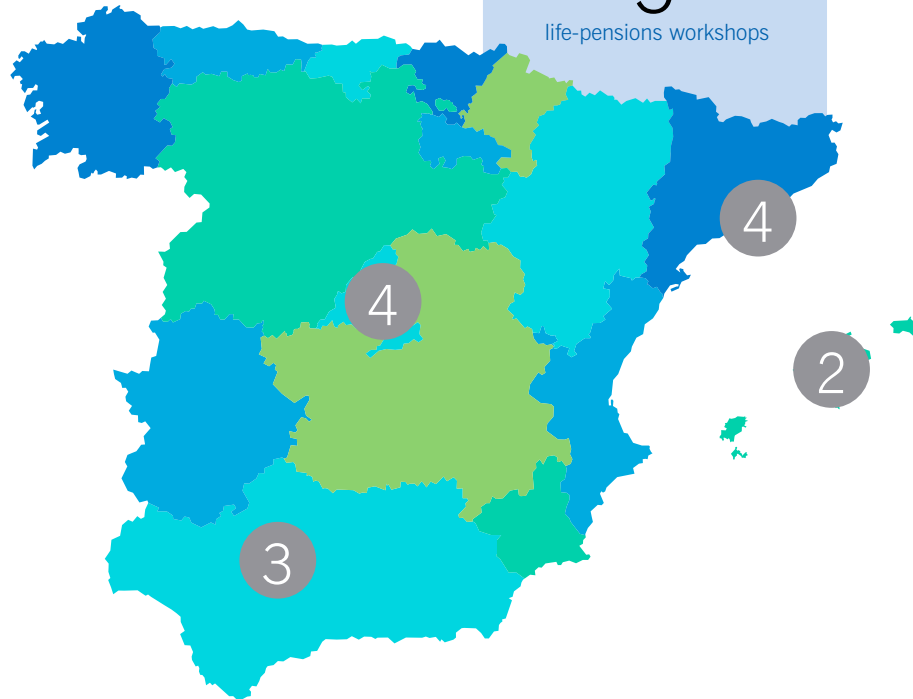
**323**  
attendees (64.34%)

**2**  
investment fund workshops

**5**  
stock market workshops

**2**  
taxation workshops

**5**  
life-pensions workshops

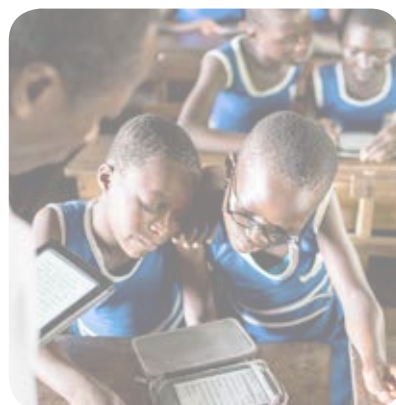


### *Notebooks on finance and financial education*

Promoting financial education is part of our responsibility. For this reason, we promote the development of activities and the publication of information aimed at improving the financial perception and knowledge of our members and the general public.

A good example is the collection of publications, Notebooks on Finance and Insurance, which published a first issue entitled 'Investor's Guide. How to save and invest in times of very low or negative interest.' This collection will be expanded next year with three more guides: 'Assets Guide,' 'Receipts and Payments Guide' and 'Pensions Guide.'





# 07

## RISK MANAGEMENT

## 7.1. Introduction

Changes in the financial sector in recent years have highlighted the crucial importance for financial institutions 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.

Caja de Ingenieros Group's risk profile is mainly characterised 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, prioritising 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.

Identification, measurement, management, control and monitoring of the risks inherent to the Group's operations are fundamental goals, always within a framework of optimisation 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 being considered fundamental:

- **Sustainability.** The Caja de Ingenieros Group's mission is to provide sustainable value to its members, and such 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, professionalised and robust risk management must be established throughout the organisation.
- **Liability.** Ultimate accountability 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 organisation. The Group promotes a risk culture by transferring risk management criteria to different levels of the organisation 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 organisation 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

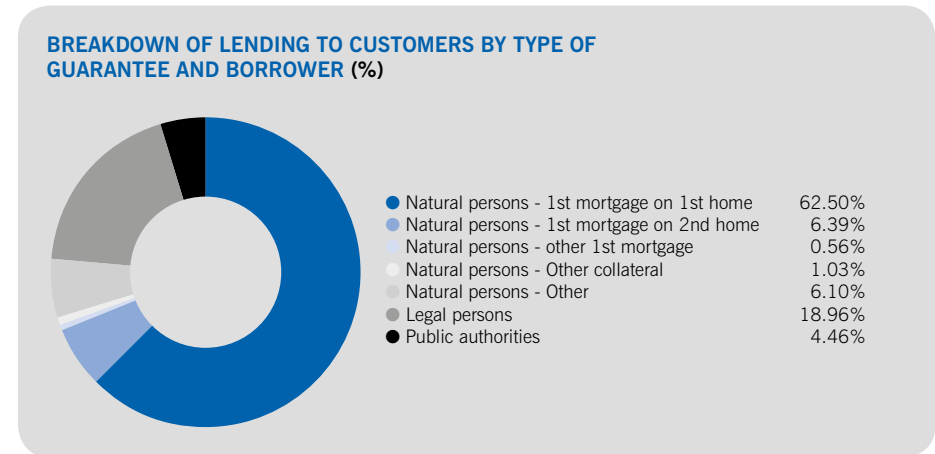
**Credit risk** refers to losses that the Group would suffer if debtors, either members or other counterparties, fail to fulfil their contractual obligations. That is to say, it is risk associated with non-payment by the customer of credit, loan or guarantee transactions, as regards traditional financial 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 collateralised, which contributes to improving its management ratios. As of the end of the 2017 financial year, 78.91% of lending to customers was collateralised, thus maintaining our high historical levels of collateral.

Following the line of diversification and collateralisation in the granting of loans with mortgage collateral typical of the Entity, it should be noted that, in 2017, 819 transactions (682 in 2016) were granted for an average amount of 179 thousands of euros (174 thousands of euros in 2016) and an average *Loan to Value* of 64.39% (62.34% in 2016).

### Breakdown of lending to customers by type of guarantee and borrower



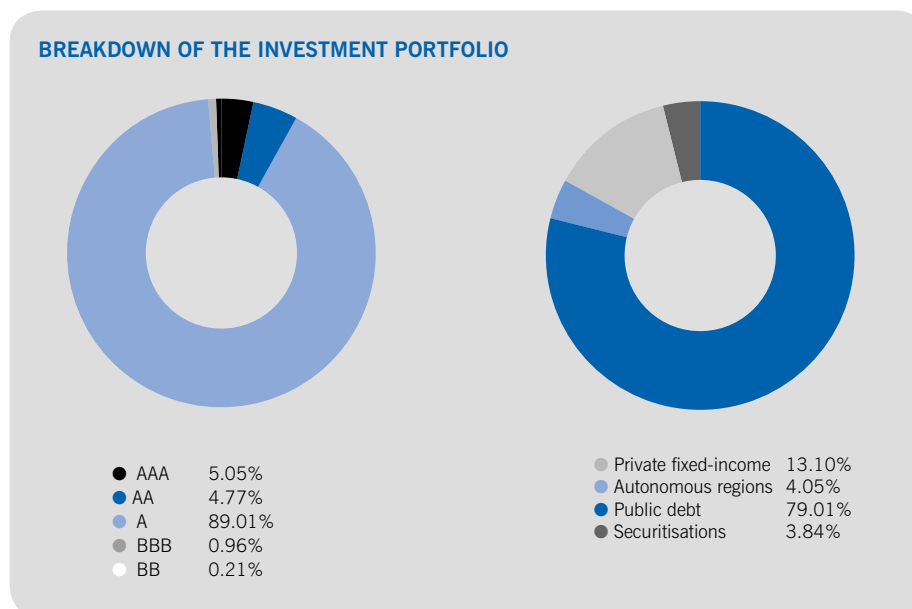
As of 31 December 2017, Caja de Ingenieros' default rate stood at 3.33%, substantially below the default level of the sector, which stood at 7.85%.

At the end of the 2017 financial year, the Group's total provisions for the coverage of customers' bad debts and debt securities was 29,646 thousands of euros, of which 2,614 thousands of euros related to generic normal risk provisions, 4,039 thousands of euros to provisions of normal risk in special surveillance and 22,993 thousands of euros to specific provisions for doubtful assets.

Total provisions related to the lending portfolio held as of 31 December 2017, which amounted to 29,326 thousands of euros, represented a coverage ratio of 54.28%, being broadly 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, while the mortgage securitisations originated by Caja de Ingenieros represent 38.26% of the portfolio.

Below is a breakdown of the financial investment portfolio as of 31 December 2017 by rating level 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.

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.

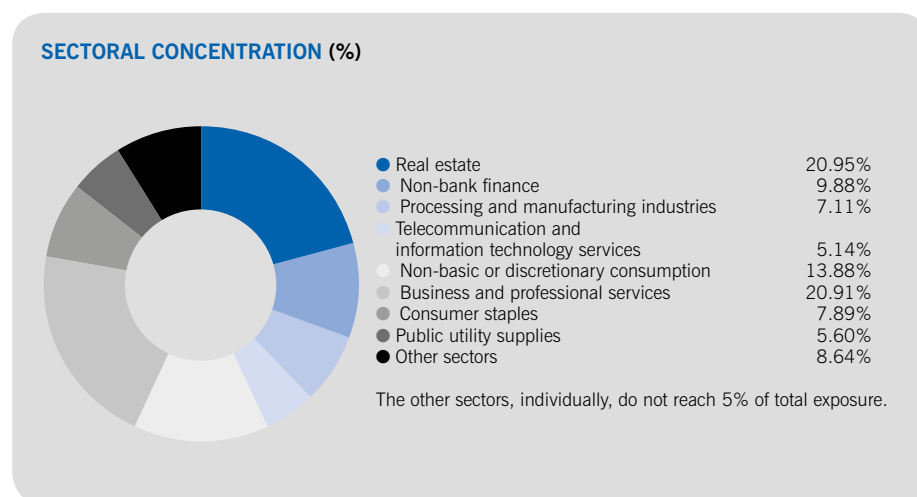
In order to limit sectoral concentration, Caja de Ingenieros has adopted a two-fold approach: a policy of prudent lending, which results in a portfolio of high-quality and well diversified lending; and a Group-wide financial investment policy, which establishes prudent limits on all investments in each 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, 20.95%; business and professional services, 20.91%; non-basic or discretionary consumption, 13.88%; non-bank finance, 9.88%; consumer staples, 7.89%; processing and manufacturing industries, 7.11%; public utility supplies, 5.60%; and telecommunication and information technology services, 5.14%.



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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 are considered as major risks if their aggregate value exceeds 10% of the Group's own funds, except for exposures with governments and central banks belonging to the OECD. As of 31 December 2017, there were no aggregate exposures that exceeded 10% of the Group's own funds.

Regarding the Group's fixed-income securities portfolios, these are well diversified and are distributed among 96 issuing groups with good credit quality.

#### 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 has 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 2017, the sensitivity of the Entity's economic value to a parallel movement of the interest rate curve of -200 basis points, measured with regulatory criteria, was below 1%, (the regulatory limit is 20%).

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 -1.21% (5.91% in a rate increase scenario), significantly below the regulatory limit of 50%<sup>1</sup>.

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

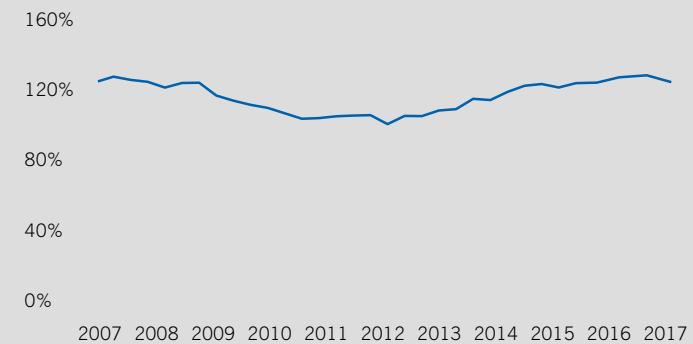
### 7.7. Structural liquidity risk

**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 utilisation 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 minimising 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 2017, stood at 128.76%.

#### EVOLUTION OF THE STRUCTURAL LIQUIDITY RATIO (%)



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. As of 31 December 2017, the LCR ratio was 218% and the NSFR ratio was estimated at 127%, when regulatory requirements were 80% for 2017 for LCR and 100% from 2018 in both cases.

### 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. Secondly, 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	314	399	
Fixed income	249	317	123
Equities	228	286	190
Sum of VaR and Conditional VaR	478	604	
Diversification effect	164	204	

VaR calculated with a confidence interval of 99% and time horizon of one day. 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 penalised, fined or required to pay punitive damages as a result of actions of the supervisor or private agreements between parties.

The organisational 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 organisational model adopted by Caja de Ingenieros Group from 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 becoming distrusted by 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.

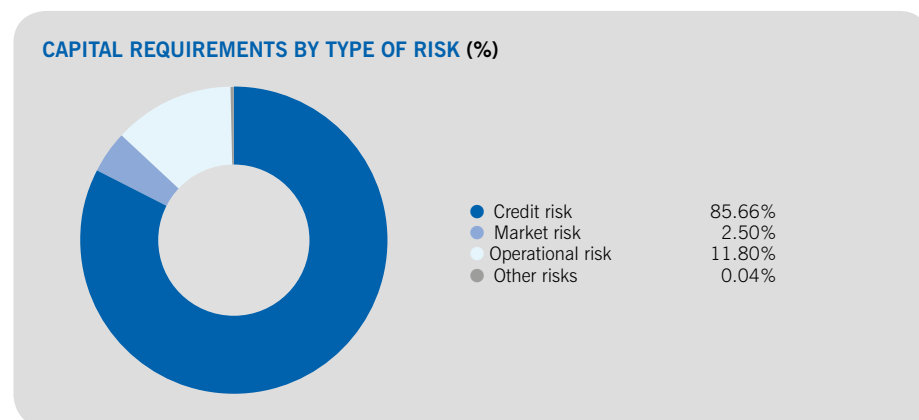
Especially important is the proper management of the following aspects:

- **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 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 collateralisation 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**.

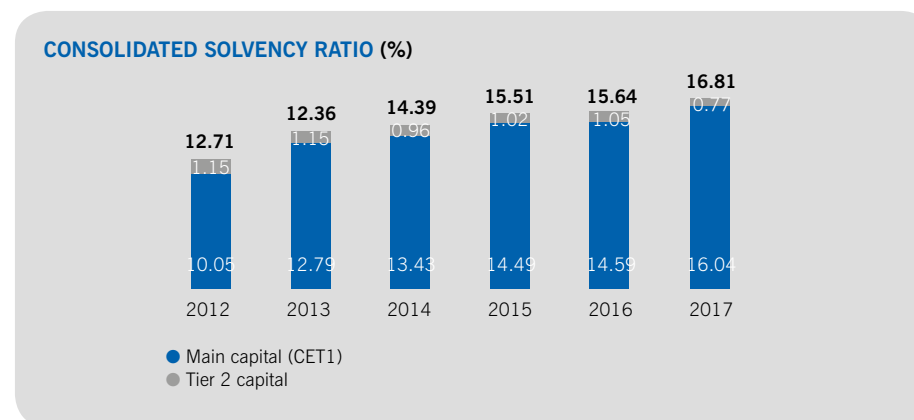


The total capital ratio, at the end of the 2017 financial year, was 16.81% (15.71% not including results attributable to reserves), substantially above the legally required minimum.

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 institutions and Directive 2013/36/EU on the prudential supervision of credit institutions (CRD), the total capital ratio according to Basel Pillar 1 must be higher than 9.25%.

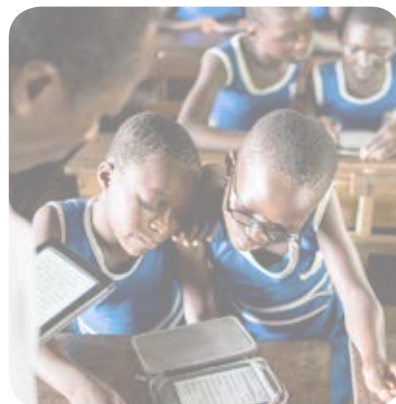
In addition, at the end of the 2017 financial year, the consolidated total capital surplus stood at 75 millions of euros.

The Common Equity Tier (CET1) of Caja de Ingenieros Group, with data at the end of the 2017 financial year, amounted to 160,992 thousands of euros, with a ratio of 16.04% (14.94%, not including results attributable to reserves), substantially above the legal requirement.



Moreover, applying the criteria set for the end of the transitional period, Caja de Ingenieros Group reached a fully-loaded CET1 ratio of 16.16%, including net retained earnings for the financial year, which represents a surplus of 91 millions of euros over the minimum regulatory fully-loaded CET1 of 7% for Pillar 1, which includes a 2.5% capital conservation buffer.





# 08

## FINANCIAL REPORT

During the 2017 financial year, in an environment characterised by growing capital needs, stemming from strong regulatory requirements, in which interest rates continued to fall substantially to historical lows, the Group continued to increase its earnings, strengthening its solvency and increasing turnover.

## 8.1 Activities report

### 8.1.1 Assets

The **total assets** of the Group, as of 31 December 2017, stood at 2,798,683 thousands of euros, which represented an increase of 3.27% in relative terms and 88,687 thousands of euros in absolute terms compared to the end of the 2016 financial year. This increase was essentially due, on the one hand, to an increase in customer loans by 95,273 thousands of euros and, on the other hand, to an increase in cash balances, cash balances at central banks and other demand deposits by 63,659 thousands of euros, which were mainly offset by a reduction in the fixed income portfolio by 66,896 thousands of euros.

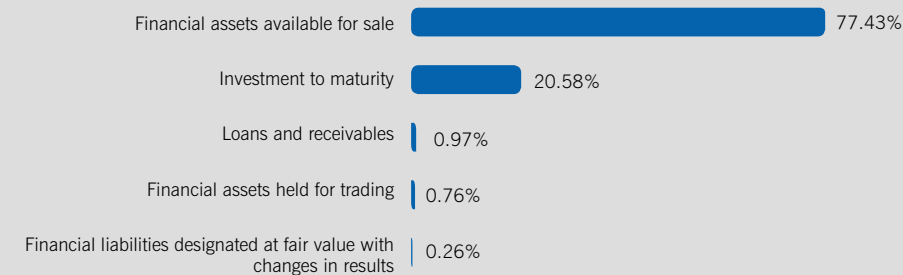
#### EVOLUTION OF ASSETS (IN MILLIONS OF EUROS)



**Debt securities** went from 1,043,154 thousands of euros to 976,258 thousands of euros as of 31 December 2016 and 2017, respectively, representing a decrease of 66,896 thousands of euros (-6.41% in relative terms).

The main types of portfolio in which the aforementioned investments are distributed are analysed below:

#### BREAKDOWN OF INVESTMENTS BY PORTFOLIO TYPE (%)



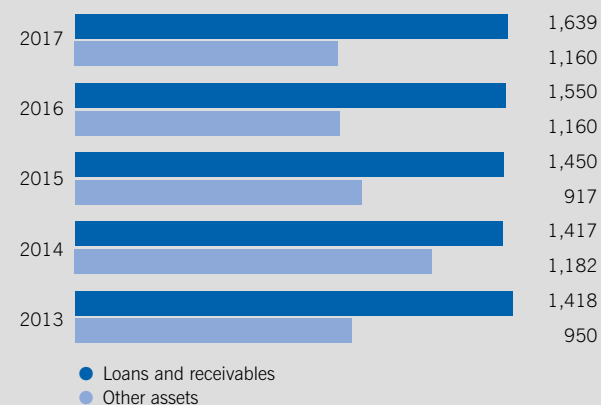
As a whole, **derivatives**, **capital instruments** and **debt securities**, which are integrated into different financial investment portfolios, went from 1,063,561 thousands of euros to 988,346 thousands of euros as of 31 December 2016 and 2017, respectively, representing 35.31% of total assets.

in thousands of euros	2017	2016	Change (abs)	Change (%)
<b>Financial assets held for trading</b>	<b>10,394</b>	<b>23,001</b>	<b>-12,607</b>	<b>-54.81%</b>
Derivatives	17	0	17	100.00%
Equity instruments	2,947	1,000	1,947	194.70%
Debt securities	7,430	22,001	-14,571	-66.23%
<b>Financial liabilities designated at fair value with changes in results</b>	<b>3,707</b>	<b>3,636</b>	<b>71</b>	<b>1.95%</b>
Of which: Equity instruments	566	612	-46	-7.52%
Debt securities	2,547	2,455	92	3.75%
<b>Held-to-maturity investments</b>	<b>200,866</b>	<b>202,946</b>	<b>-2,080</b>	<b>-1.02%</b>
<b>Financial assets available for sale</b>	<b>764,477</b>	<b>822,943</b>	<b>-58,466</b>	<b>-7.10%</b>
Equity instruments	8,558	18,795	-10,237	-54.47%
Debt securities	755,919	804,148	-48,229	-6.00%
<b>Loans and receivables</b>	<b>1,639,411</b>	<b>1,549,841</b>	<b>89,570</b>	<b>5.78%</b>
Of which: Debt securities	9,496	11,604	-2,108	-18.17%
	<b>988,346</b>	<b>1,063,561</b>	<b>-75,215</b>	<b>-7.07%</b>

The [loan and receivables portfolio](#), at the end of the 2017 financial year, stood at 1,639,411 thousands of euros, representing year-on-year increases of 5.78% in relative terms and 89,570 thousands of euros in absolute terms, mainly as a result of an increase in lending to customers.

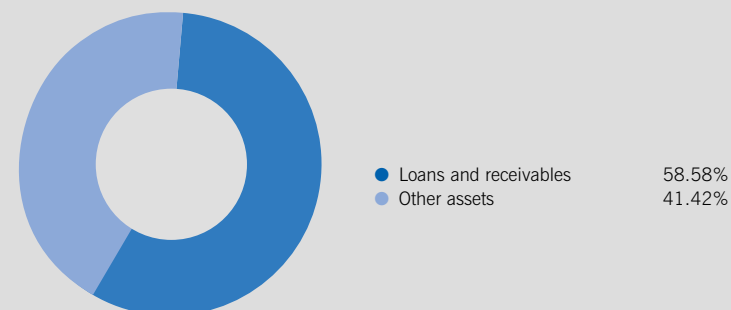
The evolution of loans and receivables and other assets over the last five financial years is shown below:

**LOANS AND RECEIVABLES COMPARED TO OTHER ASSETS (IN MILLIONS OF EUROS)**



Loans and receivables, in the 2017 financial year, represented 58.58% of total assets.

**LOANS AND RECEIVABLES AND OTHER ASSETS WITH RESPECT TO TOTAL ASSETS (%)**



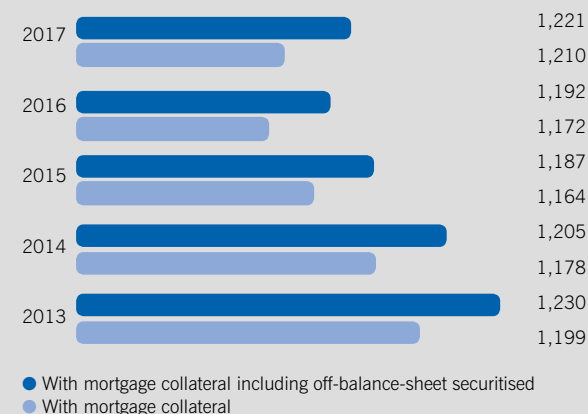
Lending to customers, which is the main component of the loans and receivables portfolio, increased by 6.23% in relative terms, compared to the previous financial year, reaching the figure of 1,624,086 thousands of euros at the end of the 2017 financial year.

#### EVOLUTION OF LENDING TO CUSTOMERS (IN MILLIONS OF EUROS)



Within lending to customers, lending with mortgage collateral amounted to 1,209,875 thousands of euros as of 31 December 2017, which represented 74.50% of total net lending to customers and 43.23% of total assets as of that date.

#### EVOLUTION OF DEBTORS WITH MORTGAGE COLLATERAL (IN MILLIONS OF EUROS)

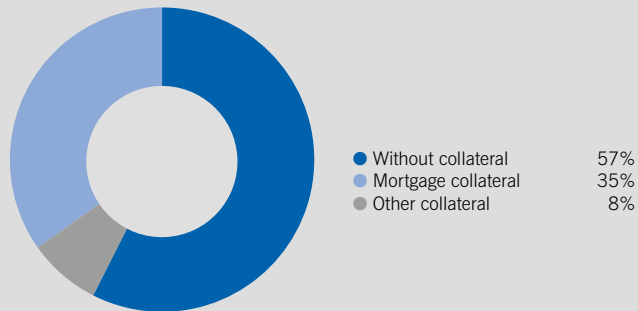


For its part, the number of loan transactions with mortgage collateral formalised during the 2017 financial year amounted to 819, with the total amount of new financing granted standing at 146,621 thousands of euros.

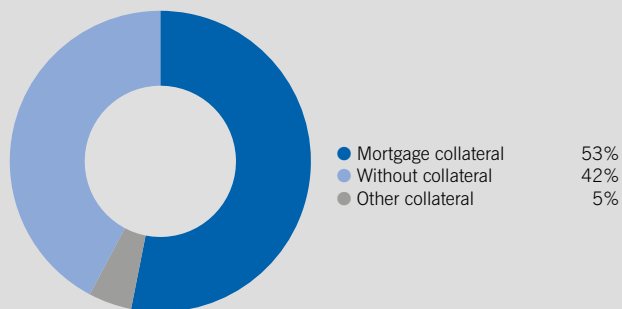
It should also be noted that lending without mortgage collateral increased by 7.62%, reaching 282,544 thousands of euros at the close of 2017, compared to 262,532 thousands of euros at the end of the previous financial year. For its part, the number of loan transactions without mortgage collateral formalised during the 2017 financial year amounted to 1,352, with the total amount of new financing granted standing at 116,605 thousands of euros.

Finally, total financing granted amounted to 276,047 thousands of euros, corresponding to 2,353 transactions.

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

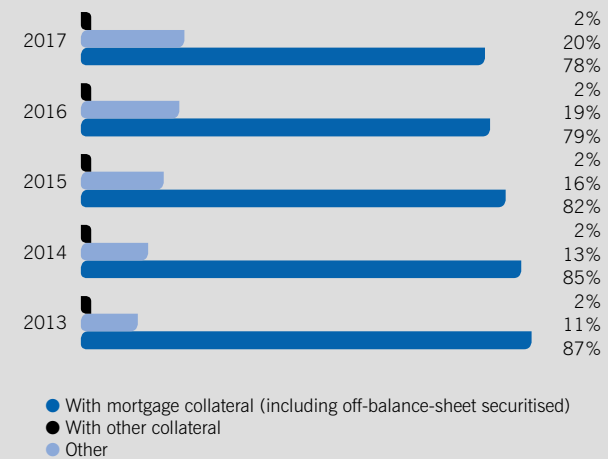


#### BREAKDOWN OF THE VALUE OF LOANS AND CREDIT TRANSACTIONS (%)



With reference to the evolution of the [breakdown of lending to customers](#), maintenance of good quality and support, to a large extent, by mainly mortgage collateral, is notable.

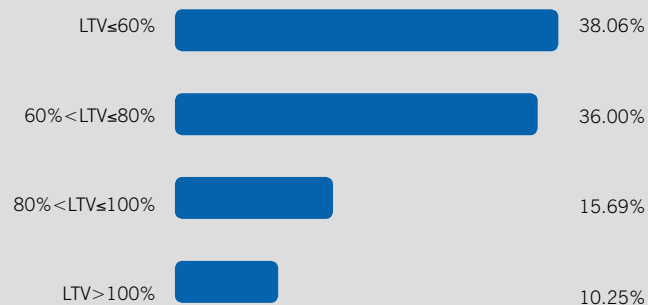
#### EVOLUTION OF THE BREAKDOWN OF LENDING TO CUSTOMERS WITH NORMAL RISK BY TYPE OF GUARANTEE (%)





Lending [with mortgage collateral to households](#) for the purchase of homes represented 73.71% of lending with mortgage collateral. 74.06% of this lending had a Loan to Value (LTV) lower than or equal to 80%, taking as a reference for calculation appropriately updated appraisals in the 2017 financial year, according to the breakdown by LTV shown below:

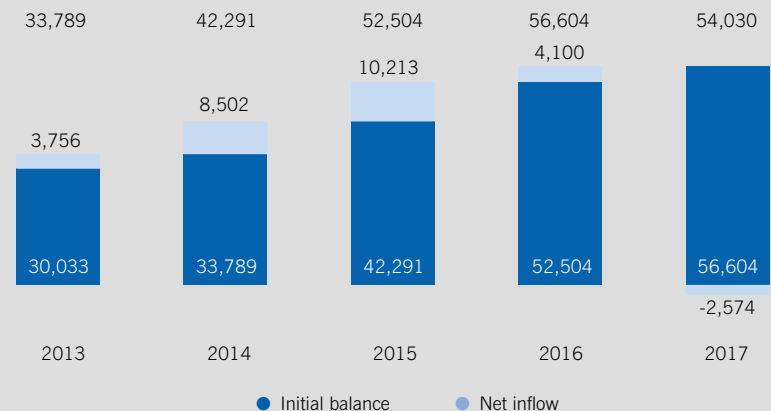
#### LTV BREAKDOWN OF MORTGAGE LENDING TO HOUSEHOLDS FOR HOME PURCHASES (%)



In addition, [refinancing and restructuring transactions](#) at the end of the 2017 financial year stood at 30,813 thousands of euros compared to 34,902 thousands of euros achieved in the previous financial year, representing 1.90% of total lending to customers.

Doubtful debt, as of 31 December 2017, stood at 54,030 thousands of euros compared to 56,604 thousands of euros at the end of the previous financial year.

#### EVOLUTION OF DOUBTFUL DEBT (IN THOUSANDS OF EUROS)



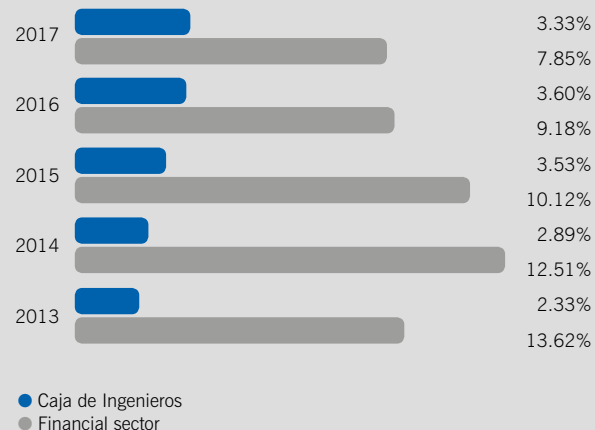
[Doubtful debt](#), as of 31 December 2017, broke down as 44,957 thousands of euros corresponding to the loans and lending with mortgage collateral portfolio and 9,073 thousands of euros corresponding to other loans and lending, representing 83.21% and 16.79%, respectively.

#### BREAKDOWN OF DOUBTFUL DEBT BY TYPE OF GUARANTEE (%)



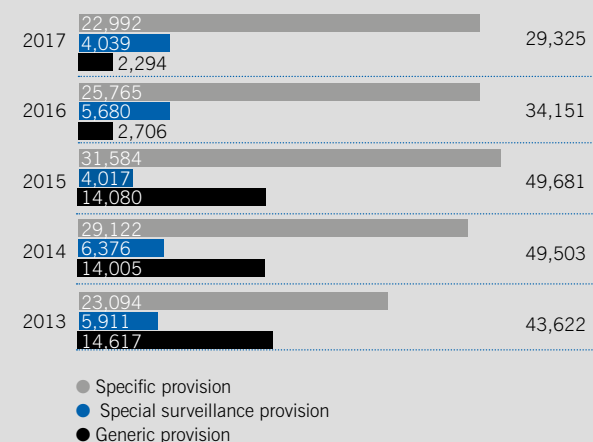
Of the doubtful assets, as of 31 December 2017, the amounts of 36,730 and 17,300 thousands of euros were respectively classified as non-performing and doubtful for reasons other than non-performance. The [default rate](#) for lending to customers, as of 31 December 2017, was 3.33%, compared to 3.60% as of 31 December 2016. 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 2017 financial year, was 7.85%. This evolution is the result of rigorous application of a strict lending policy, quality of assets and guarantees.

#### EVOLUTION OF THE DEFAULT RATIO (%)



The [provisions of the loans and receivables portfolio](#) went from 34,151 thousands of euros to 29,325 thousands of euros as of 31 December 2016 and 2017, respectively, in accordance with the requirements of the Bank of Spain and according to criteria of maximum valuation prudence.

#### EVOLUTION OF THE BREAKDOWN OF PROVISIONS (IN THOUSANDS OF EUROS)

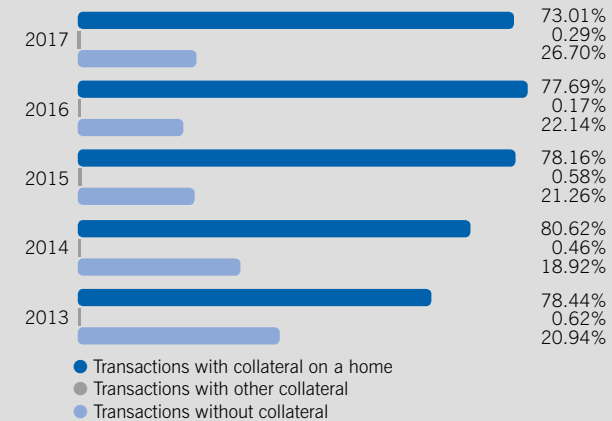


It should be noted that the 30.33%, 42.89% and 73.01% of [generic provisions for normal risk](#), [generic provisions for normal risk under special surveillance](#) and [specific provisions for doubtful risk](#), respectively, covered assets backed by mortgage collateral.

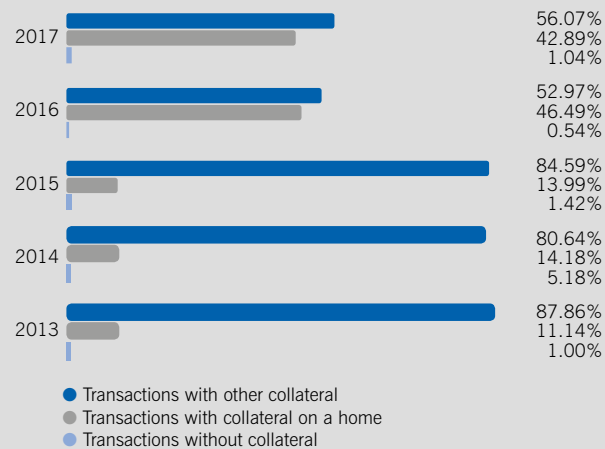
#### EVOLUTION OF THE BREAKDOWN OF THE GENERIC PROVISION FOR NORMAL RISK (%)



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

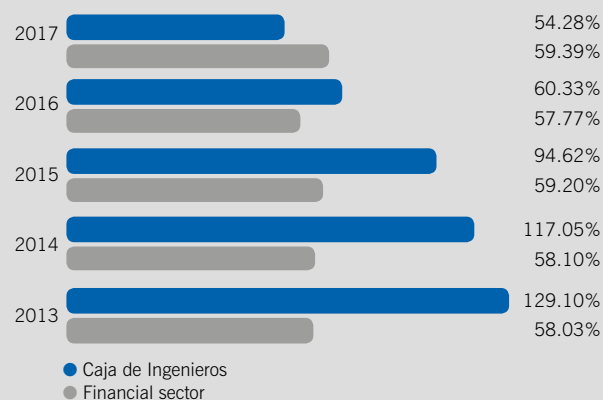


#### EVOLUTION OF THE BREAKDOWN OF THE GENERIC PROVISION FOR NORMAL RISK IN SPECIAL SURVEILLANCE (%)



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 coverage needs, translated into a doubtful debt **coverage rate** of 54.28% as of 31 December 2017.

#### EVOLUTION OF THE COVERAGE RATIO (%)



**Foreclosed assets**, relating to assets received by the Entity in payment of debts, stood at 1,740 thousands of euros as of 31 December 2017, compared to 1,223 thousands of euros at the end of the previous financial year. In addition, the volume of this portfolio, as of 31 December 2017, represented 0.06% of total assets. It should be noted that the management of foreclosed assets is carried out by the Entity itself.

**Mortgage securitisation** is the process by which a financial institution transfers the mortgage credit rights it holds on the assets of its balance sheet and transforms them into tradable financial assets in organised 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.

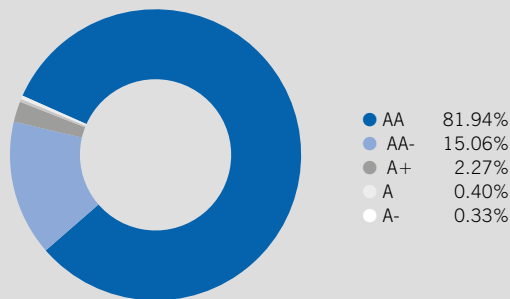
Caja de Ingenieros has participated in five multi-assignor mortgage securitisation programmes, of which, at the moment, three still remain in force with an amount pending amortisation, as of 31 December 2017, of 37,820 thousands of euros, compared to an initial amount of 241 million euros.

The Entity has also carried out, as a single assignor, two securitisation programmes for mortgage assets, the Caja Ingenieros TDA 1 Asset Securitisation Fund and the Caja Ingenieros AyT Asset Securitisation Fund, for initial amounts of 270 and 450 millions of euros, respectively. As of 31 December 2017, the amount pending amortisation, added for both securitisations, was 441,089 thousands of euros.

Below is a breakdown by credit rating of the bonds issued<sup>1</sup> through the five asset securitisation programmes, which the Entity held in its portfolio, as of 31 December 2017, for a total amount of 476,819 thousands of euros.

<sup>1</sup> 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.

## BREAKDOWN OF BONDS BY CREDIT RATING (%)



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

### 8.1.2. Liabilities and other managed funds

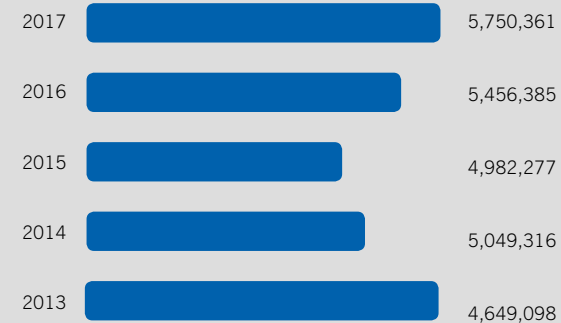
#### Turnover

**Banking turnover**, defined at management level as the sum of managed third-party funds and gross lending to customers, amounted to 5,750,361 thousands of euros as of 31 December 2017, compared to 5,456,385 thousands of euros as of 31 December 2016, which represented an increase of 293,976 thousands of euros (5.39% in relative terms).

Detailed below is a breakdown of turnover:

in thousands of euros	2017	2016	Change (abs)	Change (%)
Gross lending to customers	1,611,341	1,551,626	59,715	3.85%
Managed liability funds	2,377,618	2,310,152	67,466	2.92%
Off-balance-sheet managed funds	1,761,402	1,594,607	166,795	10.46%
<b>Total turnover</b>	<b>5,750,361</b>	<b>5,456,385</b>	<b>293,976</b>	<b>5.39%</b>

#### TURNOVER (IN THOUSANDS OF EUROS)



#### Managed funds

**Managed third party and own funds** stood at 4,293,572 thousands of euros as of 31 December 2017, compared to 4,049,988 thousands of euros as of 31 December 2016, which represented an increase of 243,584 thousands of euros (6.01% in relative terms).

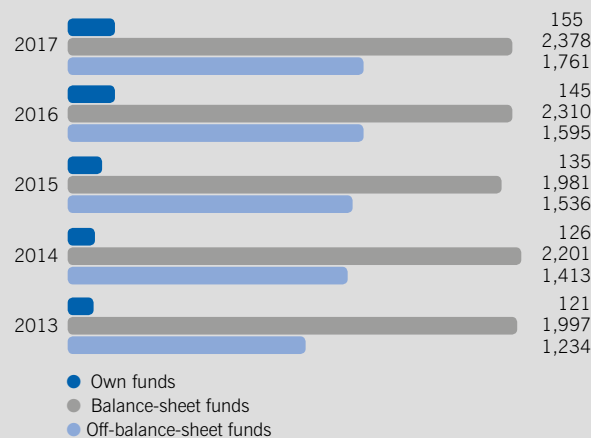


Detailed below is a breakdown of managed funds:

in thousands of euros	2017	2016	Change (abs)	Change (%)
Own funds	154,552	145,229	9,323	6.42%
Managed liability funds	2,377,618	2,310,152	67,466	2.92%
Off-balance-sheet managed funds	1,761,402	1,594,607	166,795	10.46%
<b>Total managed third-party and own funds</b>	<b>4,293,572</b>	<b>4,049,988</b>	<b>243,584</b>	<b>6.01%</b>
<b>Of which: Total managed customer funds</b>	<b>3,796,077</b>	<b>3,709,753</b>	<b>86,324</b>	<b>2.33%</b>

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

**TOTAL MANAGED FUNDS (IN MILLIONS OF EUROS)**



### Managed liability funds

Managed liability funds stood at 2,377,618 thousands of euros as of 31 December 2017, compared to 2,310,152 thousands of euros as of 31 December 2016, which represented an increase of 67,466 thousands of euros (2.92% in relative terms).

Customer deposits increased by 49,608 thousands of euros (2.25% in relative terms) as of 31 December 2017, to stand at 2,252,329 thousands of euros, compared to 2,202,721 thousands of euros at the end of the 2016 financial year.

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

in thousands of euros	2017	2016	Change (abs)	Change (%)
Demand deposits	1,409,462	1,233,239	176,223	14.29%
Term deposits	575,429	786,208	-210,779	-26.81%
Repos	266,829	181,696	85,133	46.85%
Valuation adjustments	609	1,578	-969	-61.41%
<b>Total customer deposits</b>	<b>2,252,329</b>	<b>2,202,721</b>	<b>49,608</b>	<b>2.25%</b>

Financing by the European Central Bank stood at 100 millions of euros as of 31 December 2017, compared to 70 millions of euros at the end of the previous financial year, which represented an increase of 30 millions of euros (42.86% in relative terms). 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 granting of lending.

Finally, it should be noted that the Group had a **structural liquidity ratio** of 128.76% at the end of the 2017 financial year, more than 40 points higher than the financial sector average, an aspect 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 1,761,402 thousands of euros as of 31 December 2017, compared to 1,594,607 thousands of euros as of 31 December 2016, which represented an increase of 10.46% in relative terms.

The strategy adopted by the Group is to provide a wide range of investment services to members, whose tax treatment is more favourable than that of traditional savings products, in a financial environment of extraordinarily low interest rates.

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

in thousands of euros	2017	2016	Change (abs)	Change (%)
<b>Investment funds</b>	<b>880,528</b>	<b>765,072</b>	<b>115,456</b>	<b>15.09%</b>
Internal investment funds	597,193	572,720	24,473	4.27%
External investment funds	283,335	192,352	90,983	47.30%
<b>Insurance</b>	<b>412,273</b>	<b>376,539</b>	<b>35,734</b>	<b>9.49%</b>
Internal pension funds	218,263	198,760	19,503	9.81%
Insured pension plan	90,964	91,405	(441)	(0.48%)
Individual systematic savings plan	52,797	46,895	5,902	12.59%
Annuities	7,831	6,267	1,564	24.96%
Sialp	26,882	16,990	9,892	58.22%
Unit-linked	5,985	6,351	(366)	(5.76%)
External pension funds	9,551	9,871	(320)	(3.24%)
<b>Securities</b>	<b>468,601</b>	<b>452,996</b>	<b>15,605</b>	<b>3.44%</b>
Equities	384,181	342,511	41,670	12.17%
Fixed income	84,420	110,485	(26,065)	(23.59%)
<b>Total off-balance-sheet managed funds</b>	<b>1,761,402</b>	<b>1,594,607</b>	<b>166,795</b>	<b>10.46%</b>

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 2017 financial year, stood at 880,528 thousands of euros, which represented an increase of 15.09% in relative terms, essentially as a result of new contributions by members.

The total assets of the investment funds managed by Caja de Ingenieros Gestión, as of 31 December 2017, amounted to 608,464 thousands of euros, compared to 590,056 thousands of euros for the previous financial year, representing an increase of 3.12% in relative terms.

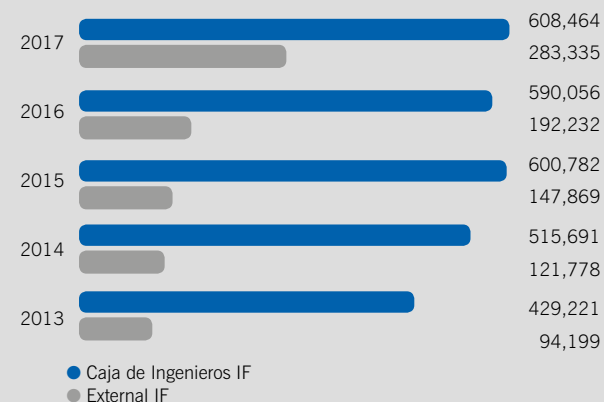
Below is a breakdown of the investment funds managed by Caja de Ingenieros Gestión by type of fund:

in thousands of euros	2017	2016	Change
Fixed-income IF	123,273	99,246	24.21%
Equities IF	215,184	160,187	34.33%
Mixed fixed-income IF	126,573	115,772	9.33%
Mixed equities IF	25,515	27,694	-7.87%
Guaranteed IF	46,824	151,250	-69.04%
Other funds	71,095	35,907	98.00%
<b>Total investment funds</b>	<b>608,464</b>	<b>590,056</b>	<b>3.12%</b>

The total number of managed investment fund accounts stood at 30,517 and 28,049 as of 31 December 2017 and 2016, respectively, representing an increase of 8.80%.

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)

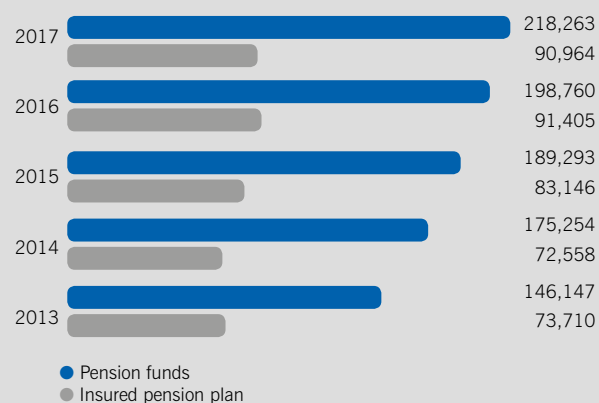


Caja de Ingenieros' [Discretionary Portfolio Management Service](#) closed the year with managed assets of 211,092 thousands of euros, which represented an increase of 47.05% compared to the end of the previous financial year. This investment service offers an immediate and dynamic management response based on the succession of events occurring in the financial markets.

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 2017, stood at 309,227 thousands of euros, compared to 290,165 thousands of euros as of 31 December 2016, representing an increase of 6.57%.

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

#### EVOLUTION OF PENSION FUNDS AND INSURED PENSION PLAN (IN THOUSANDS OF EUROS)



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

in thousands of euros	2017	2016	Change
Employment	9,108	5,723	59.15%
Fixed-income PF	13,146	15,420	-14.75%
Equities PF	76,525	61,871	23.68%
Mixed fixed-income PF	57,858	54,804	5.57%
Mixed equities PF	56,946	55,679	2.28%
Guaranteed PF	4,680	5,263	-11.08%
IPP	90,964	91,405	-0.48%
<b>Total pension funds and insured pension plan</b>	<b>309,227</b>	<b>290,165</b>	<b>6.57%</b>

In addition, the total number of pension fund accounts stood at 12,838 and 12,106 as of 31 December 2017 and 2016, respectively, representing an increase of 6.05%.

See section 6.2.3. *About us - Services to members - Personalised services* of this report, in which information relating to the products managed by the Group is expanded.

#### 8.1.3. Own funds

The Group's [own funds](#), as of 31 December 2017, stood at 166,805 thousands of euros, compared to 157,255 thousands of euros at the end of the previous financial year.

#### EVOLUTION OF SHAREHOLDERS' EQUITY (IN THOUSANDS OF EUROS)



[Share capital](#), as of 31 December 2017, stood at 72,613 thousands of euros, corresponding to 756,385 Caja de Ingenieros shares distributed among 22,390 members with contributions to the capital of Caja de Ingenieros.

#### EVOLUTION OF SHARE CAPITAL (IN THOUSANDS OF EUROS)



As of 31 December 2017, Caja de Ingenieros Group's subsidiary entities held 44,346 cooperative shares for a par value of 4,257 thousands of euros, representing 5.86% 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% 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 4.53% and 1.02%, respectively, as of 31 December 2017. 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 2017, was 2.50%.

The [membership](#) of Caja de Ingenieros Group increased by 17,815 in 2017, reaching a total of 160,412 as of 31 December 2017. Below is a breakdown of the evolution of membership over the last five financial years:

#### EVOLUTION OF MEMBERSHIP



92.70% of the Group's members were natural persons and 7.30% were legal persons, with the number of members in terms of natural and legal persons standing at 148,701 and 11,711, respectively, as of 31 December 2017.

The Group's [reserves](#) as of 31 December 2017, stood at 86,196 thousands of euros, a figure that represented an increase of 9.55% compared to the previous financial year. Reserves account for 51.67% of own funds.



#### EVOLUTION OF RESERVES (IN THOUSANDS OF EUROS)



#### EVOLUTION OF CONSOLIDATED RESULT (IN THOUSANDS OF EUROS)



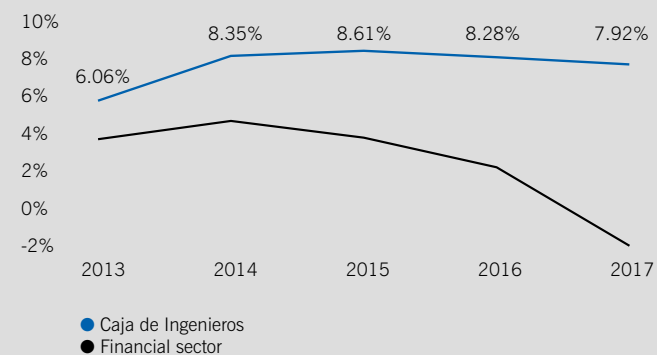
## 8.2 Results

### 8.2.1. Consolidated result

The Group's earnings for the financial year, as of 31 December 2017, stood at 12,240 thousands of euros, which represented an increase of 1.82% compared to the 2016 financial year figure of 12,021 thousands of euros.

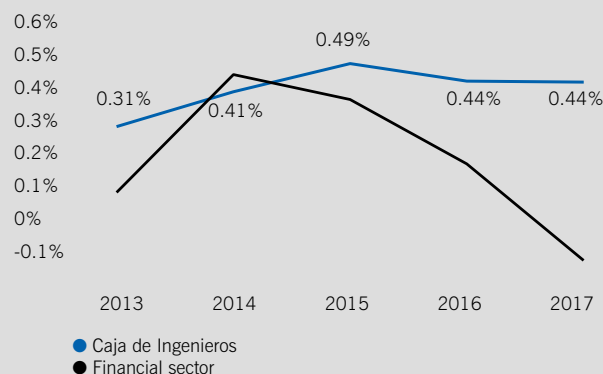
In terms of profitability, [return on equity \(ROE\)](#), at the end of the 2017 financial year, stood at 7.92%, compared to the 8.28% reached as of 31 December 2016. This slight decrease reflects the organic growth of own funds, which, in turn, enabled the Group to strengthen its financial position.

#### EVOLUTION OF RETURN ON EQUITY (ROE)



Similarly, [return on assets \(ROA\)](#) stood at 0.44% as of 31 December 2017, remaining at the same level as the previous financial year.

#### EVOLUTION OF RETURN ON ASSETS (ROA)



The [interest margin](#) in 2017 was 37,147 thousands of euros, up by 766 thousands of euros (2.11% in relative terms) compared to 2016. This increase is essentially due to the prolonged drop in interest rates, which continued to reduce financing costs and, at the same time, resulted in the channelling of term deposits towards demand deposits and other off-balance-sheet financial products with greater profitability. For its part, income volume also reduced as a result of lower profitability in renewed fixed income positions and in the lending portfolio, in this context of persistently low interest rates in which the 12-month Euribor registered negative values (-0.186%, in December 2017).

#### EVOLUTION OF INTEREST MARGIN (IN THOUSANDS OF EUROS)



The [net between fees received and fees paid](#) in 2017 was 23,738 thousands of euros as of 31 December 2017, compared to 20,462 thousands of euros recorded as of 31 December 2016, representing an increase of 3,276 thousands of euros (16.01% in relative terms).

Specifically, [fee income](#) increased from 22,602 thousands of euros to 25,869 thousands of euros as of 31 December 2016 and 2017, respectively, representing an increase of 14.45% (3,267 thousands of euros in absolute terms), mainly as a result of an increase in the volume of fees received for the management of products relating to the asset management business, particularly investment funds, discretionary portfolio management and the insurance business.

The [financial transactions net result](#) amounted to 3,587 thousands of euros at the end of the 2017 financial year, mainly as a result of the materialisation of latent capital gains in the available-for-sale financial assets portfolio, taking advantage of the market situation.

As a result of the above, the **gross margin** as of 31 December 2017 was 63,035 thousands of euros, compared to 57,275 thousands of euros in 2016, representing an increase of 10.06%. It should be noted that net interest and net fees accounted for 96.59% of gross margin at the close of the 2017 financial year.

The **operating activities result** increased by 841 thousands of euros in absolute terms (6.68% in relative terms) from 12,598 thousands of euros to 13,439 thousands of euros as of 31 December 2016 and 2017, respectively.

#### EVOLUTION OF OPERATING ACTIVITIES RESULT (IN THOUSANDS OF EUROS)



For the purposes of comparison, operating activities results for the years prior to 2016, in accordance with the requirements established by the new FINREP statements, have been adjusted.

**Operating expenses** (administrative expenses and amortisations) increased by 4.46% compared to the previous financial year as a result of the process of organic growth in which the Group is immersed. For their part, other administrative expenses, in line with the key objective of the Group to contain and rationalise expenditure, remained stable, with a slight increase of 0.80% compared to the previous financial year, which made it possible to place the **efficiency ratio** at 70.79% (compared to 76.25% in the previous financial year).

## 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:

RESULTS OF GROUP ENTITIES	2017	2016	Change (abs)	Change (%)
Caixa de Crèdit dels Enginyers - Caja de Crédito de los Ingenieros, S. Coop. de Crédito	9,816	10,087	(271)	(2.69%)
Caja Ingenieros Gestión, SGIIC, SAU	442	241	201	83.40%
Caixa Enginyers Vida - Caja Ingenieros Vida, Compañía de Seguros y Reaseguros, SAU	1,340	1,163	177	15.22%
Caja Ingenieros, Operador de Bancaseguros Vinculado, SLU	598	589	9	1.53%
Consumidors i Usuaris dels Enginyers, S. Coop. C. Ltda.	31	27	4	14.81%
Fundació Privada de la Caixa d'Enginyers - Fundación Privada de la Caja de Ingenieros	(172)	515	(687)	(133.40%)
RESULTS OF ASSOCIATED ENTITIES	2017	2016	Change (abs)	Change (%)
Norbolsa SV, S.A.	1,615	945	670	70.90%

(financial figures in thousands of euros)

(\*) Caja de Ingenieros has a 10% holding in Norbolsa, SV, SA.

For the 2017 financial year, the result of the [Caja de Ingenieros Private Foundation](#) stood at -172 thousands of euros, mainly due to the fact that, in that year, the Foundation, for its promotion of educational and cultural activities, used surpluses from the previous financial year pending application, derived from an extraordinary donation of 500 thousands of euros received from Caja de Ingenieros at the end of 2016, as part of a programme of activities planned for the celebration of the 50th anniversary of Caja de Ingenieros.

### 8.2.3. Remuneration to 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 332 thousands of euros, which represented an increase of 25.76% compared to the 264 thousands of euros 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

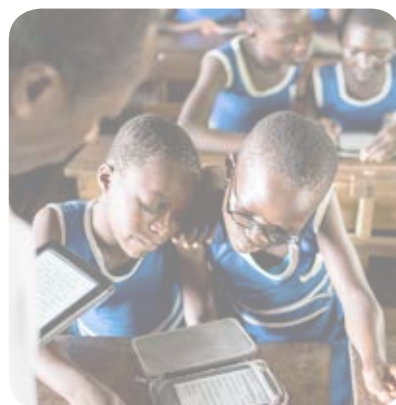
Caja de Ingenieros' result as of 31 December 2017 amounted to 9,816 thousands of euros.

The proposed allocation of the profit for 2017, which the Governing Board of the Entity submits for approval to the General Assembly of members, is shown below:

<b>Breakdown of result</b>	<b>2017</b>
Interest payable to members for capital contributions	2,873
To obligatory reserves	3,857
To voluntary reserves	3,086
	<b>9,816</b>

(financial figures in thousands of euros)

The distribution of 2,873 thousands of euros as interest to be paid to members for contributions to capital involves the application of a nominal interest rate of 4.00%.



# 09

## 50TH ANNIVERSARY



Caja de Ingenieros celebrated 50 years of history in 2017. A history that began at the initiative of a group of engineers that constituted a society with the objective of responding to the needs of their group through financial services and comprehensive insurers.

After five decades, the Entity has established itself as a benchmark among cooperative credit societies in the European market, maintaining its faithfulness to a model of responsible banking and proximity to its members.

To share this historic moment with all members and professionals, Caja de Ingenieros organised various commemorative events and activities in 2017 which were included on a specifically designed web page. The page featured content that made up a timeline to tell the story of Caja de Ingenieros from its origins to the present through its most important milestones, as well as a space that included the main news published by the press.

A video was also produced inspired by our values and the philosophy that has led us to playing an important role in the sector today.

### **Els Amics de les Arts at the Palau de la Música**

Caja de Ingenieros wants to be close to new generations of professionals. With this in mind, on 28 June, to mark the 50th anniversary of the Entity, a concert by the Catalanian pop group Els Amics de les Arts was organised at the Palau de la Música, one of Barcelona's most emblematic modernist buildings.



1. Letter from the Chairman
2. Letter from the General Manager
3. Main indicators
4. Environment and regulation
5. Strategy
6. About us
7. Risk management
8. Financial report
9. 50th anniversary

## Executive Committee of the EACB

The same emblematic venue in the Catalanian capital, the Palau de la Música, on June 15 and 16, hosted a meeting that took place between the European Association of Cooperative Banking (EACB) and the National Union of Credit Cooperatives (UNACC).

For the first time in its history, the EACB held an Executive Committee meeting in Barcelona, a regular gathering that discusses progress in matters of common interest, regulation and supervision, and the cooperative credit society sector in general.

In addition, during the sessions that brought together representatives of cooperative banking from across Europe, Japan and Canada, the future challenges of the financial and cooperative sector were addressed through different forums, meetings and workshops.

## Film music concert at the Auditori

On 20 November, Caja de Ingenieros organised a film music concert at L'Auditori in Barcelona. More than 2,000 members of the Entity attended to enjoy a concert by the Vallès Symphony Orchestra dedicated to the most iconic soundtracks in the history of cinema, with the participation of some of the films' dubbing artists.





## Action 50

The social projects carried out by the Caja de Ingenieros Foundation also played their part in this year of celebrations. To mark the Entity's anniversary, the Foundation organised the 'Action 50' competition, which gave members the opportunity to vote online for projects competing for an extraordinary contribution to give them new impetus.

Members chose projects from among the Foundation's three main lines of action (training, workplace reintegration and sustainability) and a trip to Mozambique was raffled among all participants of the voting to enable the winner to find out at first hand about the projects carried out by the NGO Engineers without Borders.

In total, more than 8,000 members participated and the winning projects were 'Rice that illuminates' by the NGO ONGAWA Engineering for Human Development and 'Brown bear and mature forests: preserving the gems of the Pyrenees' by the NGO the Sèlvans Association.

Today, Caja de Ingenieros maintains the same vocation of providing services as when it was founded, but to a wide group of professional groups and, of course, to society, responding to needs that arise and prioritising responsibility over profit and always from a perspective of sustainability in all of our actions.





mobile



tablet



pc



See the full report at

<https://www.caja-ingenieros.es/es/web/portal/informacion-economica-financiera>

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