

MEMBERS  
COOPERATIVE  
FUTURE  
SOLIDITY  
INNOVATION  
TECHNOLOGY  
SUSTAINABILITY  
SOCIAL COMMITMENT



*Caja de Ingenieros*

2016

ANNUAL REPORT

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## GENERAL INFORMATION

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 Public Debt Book-Entry Management Institution.

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 member of the Public Debt Market Book-Entry System.

Caja de Ingenieros is a member of the Barcelona Stock Exchange Securities Clearing and Settlement Service.

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. The following topics should be discussed in this Meeting: examination and approval of the Annual Report, Balance Sheet, Income Statement, distribution of profits and application of distribution. It also addresses the specific implementation of the Education and Promotion Fund.

## 01

## LETTER FROM THE CHAIRMAN



Dear members,

This year, we celebrate the 50th anniversary of Caja de Ingenieros and would like to do so with everybody that has placed their trust in us throughout this time. We are experiencing a very important moment for our Entity, not only because of this celebration, but also for the consolidation of our Group, as reflected by the 2016 results.

Increasingly, society demands greater transparency and accountability from companies. In addition, models based on the collaborative economy have also gained prominence and these enjoy broad support for their innovative formats and social contribution. We can say that we at Caja de Ingenieros were pioneers in committing ourselves to cooperative banking, contributing with it shared value.

2016 was a financial year of important political, economic and social changes. Despite the challenges, Caja de Ingenieros is able to present results that

consolidate the Entity and our model of cooperative banking. Constant, but prudent, growth, is our greatest asset to enable us to continue enjoying the confidence of our membership, which grows year after year.

As a bank with a cooperative, responsible and sustainable model, we reinvest our profits directly in the members, resulting in advantages for all. This fact is one of the main reasons why we achieved the highest net recommendation rating in the financial sector (49.6% vs. -2.9% for the sector).

In 2016, we added 11,271 new members, who we serve through our network of 25 branches and our **ONLINE BANKING** division. We are currently engaged in our new IMPULSA 2019 strategic plan, a project that aims to consolidate our leading position in national cooperative banking and whose fundamental cornerstone is commitment to members and proximity to them through technology and innovation in the digital world.

Thanks to the digital tools made available by Caja de Ingenieros, 18,000 members make monthly transactions through **Mobile Banking**.

We can announce that Caja de Ingenieros has not been affected by the ruling of the Court of Justice of the European Union in Luxembourg on 'mortgage floor clauses.' Our Entity has always been characterised by prudence and this has ensured that we always stay away from these types of activities and products.

Our commitment to society is total, and the most tangible way of conveying this is through the Caja de Ingenieros Foundation. Through this Foundation, we actively engage with society and people in order to strengthen and encourage training, research, innovation and entrepreneurship.

Over the years, we have allocated more than 3 million euros to the Foundation, which has been used for the benefit of society in more than 150 agreements with various groups and the

implementation of more than 50 projects in different areas. We have also awarded more than 60 scholarships and 800 people have been able to participate in our continuing training courses for the unemployed.

We are currently celebrating our anniversary and we have many challenges ahead that will help to consolidate our growth. Caja de Ingenieros' commitment is to be faithful to the mission, vision and values that characterise and differentiate our Entity. In the words of the motto of our new 50th anniversary corporate image, 'always by the side of members.'

**JOSÉ ORIOL SALA ARLANDIS**  
Chairman

## 02

## LETTER FROM THE GENERAL MANAGER



Dear members,

2016 has been a year of uncertainty and surprises in the macroeconomic, political and international environment. The election of a new president in the United States, Brexit and the refugee crisis, which is affecting thousands of citizens of the world, were events that now represent major new challenges to international order and have uncertain consequences.

In the financial field, the United States began to normalise its monetary policy, while maintaining its regulatory momentum, which also affects our country, especially regarding new regulation on provisions for credit risk. This has required a major adjustment effort which will pay off with the entry into force in January 2018 of IFRS 9, a standard that will also include a new model of provisions for credit risk.

From the point of view of the banking business, 2016 was the first financial year with negative Euribor interest rates – a consequence of the European Central Bank's aggressive monetary policy of intervening in debt markets, an unprecedented phenomenon in modern economic history which led to a notable distortion in the pricing of money and risk.

This policy did, however, lead to a slight recovery of economic activity in the European Union, while the United States economy remained steady. In stock markets, despite economic growth, political uncertainties, especially in Europe, prevented major advances in a year in which there were significant episodes of volatility.

In this complex and uncertain environment, the challenges of Caja de

Ingenieros were to preserve the stability of the business and seek sound solutions for investment or financing of members.

2016 was also a financial year in which the Entity made great efforts in order to achieve results that, in keeping with our commitment to sustainable and prudent growth, produced a net profit of 12 million euros, representing a 3.3% increase year-on-year, reaching a turnover of €5.4 billion, with growth close to 10% compared to 2015.

Caja de Ingenieros' default rate remained at the moderate level of 3.60%, while structural liquidity reached a historical high of 140%, a figure that provides the Group with extensive room for manoeuvre and broad safety margin.

Lending, strengthened by Corporate Banking activities, which increased by

1% year-on-year, is placing our Entity in a leading position in the sector in terms of financing the real economy, with growth of 7%, the sector as a whole having recorded a fall of over 3%.

It should be noted that Caja de Ingenieros' investment management has placed its investment funds and pension plans in positions of leadership for their consistency and sustainability. In this regard, also worth mentioning is the achievement of the award for best individual pension plan in Spain for CI Multigestión PP, awarded by IPE (Investment & Pensions Europe).

We reaffirmed our commitment to investing in technology, exemplified by our MOBILE Banking division, which has the aim of promoting customer proximity, service and personalised advice in both face-to-face and online environments.

In addition, part of the investment was allocated to improving the cost structure of the service, not to mention the regulatory requirements of the financial authorities.

Caja de Ingenieros works, in conjunction with the EACB (European Association of Co-operative Banks), towards achieving better financial regulation proportional and adjusted to the intrinsic risks that each financial business model poses for the economy. We consider it necessary to avoid the distortion that supposes that our Entity has to adopt the same regulations as those intended for systemic entities with business models that assume a greater risk than ours.

Finally, I would like to remind everyone that we are currently celebrating the 50th anniversary of the Entity, a historic event that we want to share with all members who, over the years, have placed their trust in us. This milestone should serve as a reminder of the importance to continue our firm commitment to providing the best service and advice to our community of members, contributing to financial stability and creating shared value from our cooperative model.

I would like to thank all members of Caja de Ingenieros for the confidence they have placed in us, which allows us to continue growing year after year. I would also like to thank the Entity's Governing Board, the faithful guarantor of this

confidence; its management team; and all of the employees and professionals who work with us, because, without their firm commitment and effort, we would not have been able to improve over the years and meet the challenges that have been posed. We will continue together, building a successful path to make Caja de Ingenieros Group even better.

A handwritten signature in blue ink, appearing to read 'Joan Cavallé', written over a faint horizontal line.

**JOAN CAVALLÉ MIRANDA**  
General Manager



**03**

**CAJA DE INGENIEROS  
GROUP  
IN FIGURES**



## 03

## CAJA DE INGENIEROS GROUP IN FIGURES

**Members**

More than 142,000 members have placed their trust in Caja de Ingenieros. In 2016, the precise figure was 142,597.

**142,000**  
members

**Total capital ratio**

Very much higher than the minimum requirement for financial institutions and well above the ratio set by Basel III (10.50%).

**15.64%**

**Structural liquidity**

The Group had a structural liquidity ratio of 139.63% at the end of the year.

**139.63%**

**Financial year earnings**

The Group's earnings for the year, as of 31 December 2016, stood at 12,021 thousands of euros, which represents an increase of 3.30% compared to the close of the 2015 financial year.

**+12**  
millions





### Coverage ratio

The 2016 financial year closed with a coverage ratio of 60.33% as of 31 December 2016, which is higher than the average for the financial sector, which, at the end of the year, stood at 57.77%

# 60.33%



### Staff

Caja de Ingenieros has a staff of 444 highly qualified and experienced professionals, 6.47% more than in 2015. The average age is 39.

# 444

staff



### Ratings

Caja de Ingenieros' TDA 1 and AyT 2 mortgage securitisations, at the close of the 2016 financial year, maintained their credit ratings at the sectoral maximum (AA+ and Aa2) according to the rating agencies Fitch Ratings and Moody's.

# AA+ and Aa2



### Turnover

Turnover amounted to 5,456 millions of euros as of 31 December 2016, compared to 4,982 millions of euros as of 31 December 2015, an increase of 9.52% in relative terms.

# +9.52%



### ROE

At the end of the 2016 financial year, return on equity (ROE) was 8.28%.

# 8.28%



### Default rate

The default rate of 3.60% contrasts with the default rates of the sector (9.18%), in line with the Group's high quality lending.

# 3.60%



### ROA

Return on assets (ROA) stood at 0.44% as of 31 December 2016.

# 0.44%



### Customer funds

Managed customer funds, as of 31 December 2016, amounted to 3,710 millions of euros, compared to 3,373 millions of euros as of 31 December 2015, which represents an increase of 337 millions of euros.

# +9.99%



### Caja de Ingenieros Foundation

As testament to the Entity's social commitment, the Foundation has promoted the implementation of over 260 projects in five years and has awarded more than 200 scholarships and awards.

# +200

scholarships and awards



### Digital Banking

Visits to **Mobile** Banking increased by 1% year on year

# 34,000

downloads of the mobile app





**04**

**PRESENTATION OF  
CAJA DE INGENIEROS  
GROUP**

## 04

## PRESENTATION OF CAJA DE INGENIEROS GROUP

Caja de Ingenieros is a financial and insurance group delivering a personal, business and institutional banking model in Spain which is committed to serving all professionals and their families.

It was founded as a cooperative credit society by a group of industrial engineers in 1967. Since then, it has experienced continuous growth throughout its 49 years, keeping true to its vocation since its beginnings: to provide tailor-made financial services with the best conditions of sustainability.

Being a cooperative credit society has enabled us to reinvest profits directly into members, offering them numerous additional advantages and professional and personal services. The cooperative model, which is the foundation of the 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 also for society as a whole.

The Caja de Ingenieros Group consists of a number of companies that enhance service and support for members: **Caja de Ingenieros Gestión**, an investment fund management company; **Caja de Ingenieros Vida**, an insurance, reinsurance and pension fund management company; **Caja de Ingenieros Bancaseguros**, a bancassurance operator; **Ingenium Shopping**, a cooperative of consumers and users of engineers; and **Norbolsa**, a securities firm as an associated entity. **Caja de Ingenieros, Sociedad Cooperativa de Crédito**, is the parent company. 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	Caja de Ingenieros Group's 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
Caja de Ingenieros Foundation	Potosí, 22 08030 Barcelona	Corporate social responsibility vehicle

\* Associated entity. Caja de Ingenieros has a 10% holding in Norbolsa, SV, SA. In spite of holding less than 20% of Norbolsa's share capital, Caja de Ingenieros exercises significant influence over the company as shown by its seat on its Governing Board.

## CORPORATE ORGANISATION CHART OF CAJA DE INGENIEROS GROUP COMPANIES

CHAIRMAN  
José Oriol Sala Arlandis

GENERAL MANAGER  
Joan Cavallé Miranda

## GOVERNING BOARD

Chairman  
José Oriol Sala Arlandis

Deputy Chairman  
Manuel Bertran Mariné

Secretary  
Enric Homs Martínez

Members  
David Parcerisas Vázquez  
Pedro A. Hernández Del Santo  
Pedro Marín Giménez  
Jaime Roure Pagés  
José María Pera Abadía  
Félix Masjuán Teixidó  
Sebastià Carrión Morros\*  
Carme Botifoll Alegre\*\*  
Josep M. Muxí Comellas  
Antonio Santamans Olivé  
Montserrat Salleras Costal

\* Until the first quarter of 2016.  
\*\* Since the second quarter of 2016.

## EXECUTIVE COMMITTEE

Chairman  
José Oriol Sala Arlandis

Secretary  
Enric Homs Martínez

Members  
Manuel Bertran Mariné  
Pedro A. Hernández del Santo

## MANAGEMENT COMMITTEE

Joan Cavallé Miranda  
Francesc Durán Lorenzo  
Jordi Marsan Ruiz  
Federico Ariza González  
Montse Bertran Bergua  
Víctor Cardona Vernet  
Jaume Franco Domingo  
David Murano Casanovas  
José L. Sánchez Rabaneda  
Isabel Sánchez Soria  
Xavier Fàbregas Martori  
Bas Fransen  
Antoni Fernández Moreno  
Karen Schrijner

## CAJA DE INGENIEROS FINANCIAL GROUP

CAJA INGENIEROS GESTIÓN, SOCIEDAD GESTORA  
DE INSTITUCIONES DE INVERSIÓN COLECTIVA,  
SAU

Chairman  
Màxim Borrell Vidal

Directors  
Ferran Sicart Ortí  
Jordi Martí Pidelaserra

General Manager  
Xavier Fàbregas Martori

CAJA INGENIEROS, OPERADOR DE  
BANCASEGUROS VINCULADO, SLU

Sole Director  
Jaume Franco Domingo

CAJA INGENIEROS VIDA, COMPAÑÍA DE SEGUROS  
Y REASEGUROS, SAU

Chairman  
Màxim Borrell Vidal

Deputy Chairman  
Joan Cavallé Miranda

Members  
Ferran Sicart Ortí  
Francesc Durán Lorenzo

General Manager  
Antoni Fernández Moreno

## CAJA DE INGENIEROS FOUNDATION

Chairman  
José Oriol Sala Arlandis

Deputy Chairman  
Manuel Bertran Mariné

Secretary  
Enric Homs Martínez

Trustees  
David Parcerisas Vázquez  
Pedro A. Hernández Del Santo  
Pedro Marín Giménez  
Jaime Roure Pagés  
José María Pera Abadía  
Félix Masjuán Teixidó  
Sebastià Carrión Morros\*  
Carme Botifoll Alegre\*\*  
Josep M. Muxí Comellas  
Antonio Santamans Olivé  
Montserrat Salleras Costal  
Josefina Cambra Giné  
Aurelio Luis Azaña García  
Salvador Domingo Comeche  
Ramon Ferrer Canela  
Benjamín Manuel Calvo Pérez  
Joan Vallvé Ribera  
Joan Cavallé Miranda  
José Miguel Muñoz Veiga\*\*\*  
José Antonio Galdón Ruiz\*\*\*\*

\* Until the first quarter of 2016.  
\*\* Since the second quarter of 2016.  
\*\*\* Since the first quarter of 2016.  
\*\*\*\* Since the fourth quarter of 2016.



# 4.1

## MISSION, VISION, VALUES AND STRATEGIC PRINCIPLES

### MISSION

#### To 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

#### To be the leading Entity

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

In order to achieve this, we provide advice and solutions that stand out for being tailored to the individual circumstances and needs of our members. 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.

'Our values express Caja de Ingenieros' commitment to members and society'

### VALUES



#### **Integrity.**

Faithfulness to our principles and to ourselves. Working with honesty, reliability, accountability and transparency in the conduct of business, work, relationships and fulfilment of established commitments.



#### **Commitment.**

The ability to deliver and persist in achieving our established goals. The manifestation of perseverance and initiative.



#### **Excellence.**

Doing our work excellently to be the banking benchmark for professionals, vigorously seeking imaginative solutions for our members and improving continuously.



#### **Professionalism.**

Working with efficiency, rigour and empathy through our efforts, teamwork and lifelong learning.



#### **Proximity.**

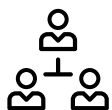
Emotional and physical closeness to our members. Building strong, stable and lasting relationships with our members, mainly based on mutual confidence and understanding of their needs.

‘Caja de Ingenieros’ strategic principles define its priorities within the context of corporate social responsibility’

## STRATEGIC PRINCIPLES



**1. Growth.** To grow within the segment representing the best professionals in Spain, with a strong emphasis on members and linking them to comprehensive solutions in order to become their main financial institution.



**2. Service excellence.** To implement a model of service quality, simplifying procedures and further improving the experience of members in their dealings with Caja de Ingenieros.



**3. Efficiency.** To maximise the efficiency of Caja de Ingenieros by increasing productivity, seeking opportunities for synergy through members and partnerships and supporting growth in a low-cost environment.



**4. Human resources.** To empower the Group's employees to become a key element for the future and promote changes in the work culture towards a model that requires greater delegation, initiative, assumption of responsibilities and total orientation towards members and the market.



**5. Solvency and transparency.** To ensure prudence in the management and control of risk, making transparency towards members and the market a distinguishing feature.





## 4.2

### OUR ACTIVITIES

The Entity allocates the necessary resources to enable it to improve the services it provides in its various business segments, adapting and responding to its needs.

In 2016, we continued to grow by increasing our business figures, turnover and, also, the number of members who placed their trust in the Entity.

#### 4.2.1 Business segmentation

Business segmentation enables us to continue working to adapt our services to the financial and insurance needs of members.

#### UNIVERSAL BANKING

Caja de Ingenieros offers Universal Banking throughout its branches and also provides remote access services (**TELEPHONE** Banking, **ONLINE** Banking and **Mobile** Banking).

#### NEW BRANCH

2016 saw the opening of a new branch in Malaga, a space in which we seek to improve and extend our services to the members who have accompanied us since our arrival in the city.

The 24 branches that make up our Network of Branches are distributed in the following manner:

- 1 in Alicante
- 9 in Barcelona
- 1 in Bilbao
- 1 in Girona
- 1 in Lleida
- 3 in Madrid
- 1 in Malaga
- 1 in Palma de Mallorca
- 1 in Sant Cugat del Vallès (Barcelona)
- 2 in Sevilla
- 1 in Tarragona
- 1 in Valencia
- 1 in Zaragoza

In addition to our Direct Office, which attends to all members in geographical areas in which the Entity has no physical presence.

#### PERSONAL BANKING

Our members can enjoy tailor-made financial and insurance services thanks to savings and investment plans that suit their risk profiles, savings and investment goals, time horizons and financial circumstances. At the end of 2016, Caja de Ingenieros boasted 79 Personal Bankers offering individualised financial advice to over 20,000 members.

#### INSTITUTIONAL BANKING

We collaborate with academic and professional institutions through numerous collaboration agreements. Thanks to these agreements, the Entity can offer specific services and products to each sector and the students and professionals that belong to such institutions (professional associations, universities, etc.).

17 new collaboration agreements were signed with professional associations, bodies and academic institutions (universities) in 2016. By the end of the year, the total number of agreements signed stood at 202, reaching 50,000 new professionals and members. Throughout 2016, more than 80 activities were organised in conjunction with universities, schools, colleges

#### PRESENTATION OF CAJA DE INGENIEROS GROUP

and associations. In terms of public institutions, a number of agreements were also reached with various public associations and bodies, including Molins Town Council, Malaga City Council and Valencia Regional Government.

Agreements were also signed with organisations such as CECOT, UPC, AJEG, CAEB, PIMEC, PIMEM and the ATTA, all with the aim of boosting entrepreneurship, new businesses and SMEs.

In addition, new agreements were entered into with colleges, professional associations, and universities in locations where Caja de Ingenieros has no branches, such as Manresa and Badajoz, making the Entity more visible in these regions and facilitating the acquisition of new members.

#### WHOLESALE BANKING

Within the Capital Markets Area, the Wholesale Business Department aims to provide value to institutional investors, corporations, public authorities, insurance companies and other financial institutions.

Among other activities, it participates in corporate bond issues, providing

financing to corporations and brokerage services to wholesale markets. It is also involved in primary and/or secondary market syndicated loan and Schuldschein transactions, as well as the financing of public authorities and other corporate banking transactions.

Total funds managed in 2016 amounted to 253 million euros. In terms of lending, the portfolio increased by €6.7 million euros to reach €33.6 million euros.

## CORPORATE BANKING

2016 was a year of consolidation of our Corporate Banking service. The service, which began in 2013, offers a wide range of different products for SME financing and services.

Currently, this service is being provided to more than 8,000 companies associated with the Entity.

# 79

Personal bankers

# 17

new collaboration agreements  
with professional institutions



#### 4.2.2 Research, development and technology

In the 2016 financial year, Caja de Ingenieros continued on the same track as recent years by investing in technology as a key factor in tailoring its services to the needs of its members, improving the quality of its management and complying with the new regulatory framework.

Caja de Ingenieros' Information and Technology Systems Department continued with the implementation of its programme for technological change, in line with its IMPULSA 2019 Strategic Plan, which seeks to achieve significant improvements in information systems, facilitate digital transformation and innovate in business processes.

Among the actions carried out in 2016 in relation to information systems, particularly noteworthy were the completion and implementation of a new **Mobile** Banking app and three new components of the Strategic Plan – a CRM system, insurance marketing and management platform and investment fund website. There was also progress towards the implementation of new architecture for our core banking service with the addition of corporate data warehouse systems to this new platform.

2016 also saw continued investment in Information Technology in compliance with the new European regulatory framework for the financial sector, which continues to require significant effort and resources in order to adapt and evolve systems. In this regard, we continued to seek synergies in relation to our different needs and took the opportunity to renew or improve the applications that support supervisory body control and reporting processes, such as the Bank of Spain's Risk Information Centre, Annex 10 of Circular 4-2016, Bank of Spain (FINREP and COREP) and European Central Bank reporting, as well as reform of the stock market settlement system, which became fully operational in April.

Listed below are other significant projects implemented in the 2016 financial year, which, together with the numerous information system initiative carried out, have the aim of adapting and improving the services offered to our members, reducing operational risk and/or increasing operational efficiency.

- Technological development of new products and services for members.
- Improvements in our **ONLINE** Banking operation.

- Progress was made in the development and implementation of two new systems aimed at improving the management of lending in order to increase efficiency and the capacity to offer new services to members.
- Development phase of the ARIES project, which consists of completely renewing the Entity's Assets and Risks application (loans, credits, guarantees, risk classification, etc.).
- Analysis and conceptualisation phase of the SCACS project for the digital management of assets files.
- Completion of the definition phase of the project for the implementation of the new Calypso platform for front to back management in the field of financial and treasury markets.
- Continued expansion of the content and scope of our corporate data warehouse, which has become the leading data repository for regulatory agency control and reporting systems.



#### 4.2.3 Channels and networks

Possessing several channels to ensure that Caja de Ingenieros is able to provide members with high quality service and communication is essential.

The Entity works to ensure totally flexible and simple communication, providing a unique experience for members.

In this regard, it continues to be firmly committed to complete and fully accessible Digital Banking from any device.

- **MOBILE** Banking
- **ONLINE** Banking
- **TELEPHONE** Banking

In 2016, the new mobile app was made available to members, achieving an increase in unique users of 56% for this channel. The goal is to standardise the channels in order to make the experience unique and just as easy as if the user is in one of our branches, with the confidence and values that characterise Caja de Ingenieros.

In this digital and service area, an ambitious plan to incorporate functionalities, usability improvements and adaptations also based on the suggestions of members has been designed.

Enabling not only security and operational performance, but also infrastructures such as the app's new search engine, which incorporates a geolocator to filter the more than 8,000 cashpoints that members are able to use to withdraw money without charges up to 5 times a month.

With these initiatives, the Entity provides members with a multiplatform solution in which they can choose the channel that best suits their needs.

Presented below is information on the use of these communication channels by members.

18,000

ACTIVE USERS PER MONTH  
NEW APP

34,000

DOWNLOADS OF THE MOBILE APP

90,000

MEMBERS CONNECTED

70,000

DIGITAL MEMBERS (> 12 visits/year)

8,700,000

VISITS

59.54%

ACTIVE USERS PER MONTH

1,500

MILLIONS OF EUROS MANAGED  
IN DIGITAL BANKING

60,000,000

TRANSACTIONS  
IN DIGITAL BANKING



**05**

**ETHICS AND CORPORATE  
GOVERNANCE**

## 05

## ETHICS AND CORPORATE GOVERNANCE

## 5.1

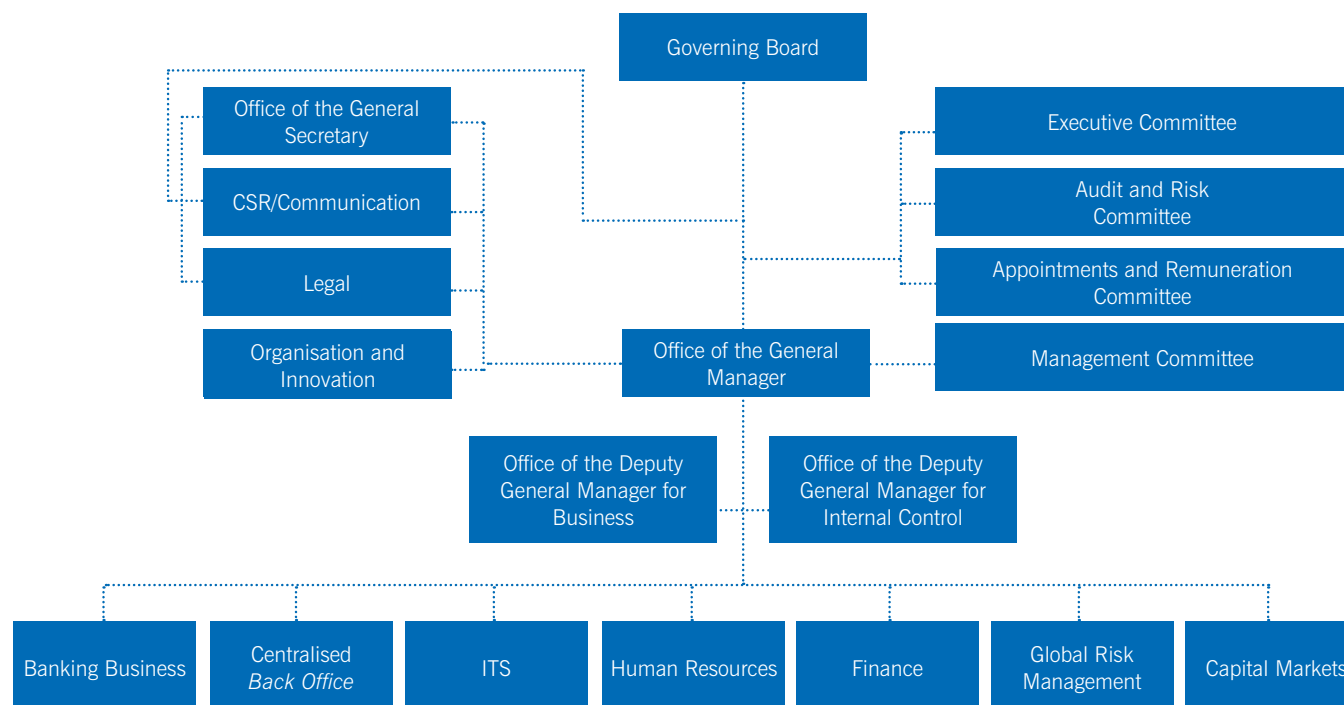
## ORGANISATIONAL STRUCTURE

Our firm commitment to carry out activities in accordance with the principles of ethics, transparency and good governance, responding to the requirements of our different stakeholders, determines an organisational structure consistent with this responsibility.

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

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

The following is the Entity's organisation chart.





## GENERAL MEETING

The General Meeting is the body that 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 any other matters of interest and make binding decisions unless they fall within the remit of the Entity's other corporate bodies. Its function is to establish the Entity's general policy.

## GOVERNING BOARD

The Governing Board is the Entity's governing, management and representative body, consisting of thirteen full board members, a Chairman, Deputy Chairman, Secretary and ten others.

All members are independent directors, and none of them has the status of executive director. 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 an employee of the Entity.

The Governing Board approved selection and appointment 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 to ensure that the Board as a whole has adequate powers to perform its duties and govern the Entity effectively, taking into account 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 the management and administration powers delegated by the Governing Board, except for those which cannot be delegated by law, and which are contained in the Internal Operating Rules of the Board. The Committee meets at least 12 times a year.

The Governing Board always maintains its competence in the delegated powers and is responsible to the Entity, members, creditors and third parties for the management carried out by the Executive Committee.

## APPOINTMENTS AND REMUNERATION COMMITTEE

A Governing Board delegated committee that supervises and advises on the remuneration, selection and appointment of members of the Board, senior management, key personnel and holders of internal control functions, in accordance with, among other considerations, the Entity's Diversity Policy. This policy 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.

It is responsible for the analysis and regular monitoring of the selection, appointment 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 the aforementioned functions, responsibilities, competencies and duties.





## AUDIT AND RISK COMMITTEE

The Governing Board approved 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 the aforementioned functions, responsibilities, competencies and duties.

## OFFICE OF THE GENERAL MANAGER

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 business areas and other support and control areas.

Senior Management (Office of the General Manager) actively participates in Caja de Ingenieros' internal control system and is kept up to date by all departments responsible for supervising its effectiveness.

The Office of the General Manager of Caja de Ingenieros is also the Entity's

representative before SEPBLAC, Spain's anti-money laundering watchdog.

## MANAGEMENT COMMITTEE

Its function is to implement the Group's strategic objectives and, to that end, it has general powers in terms of their organisation and management, as well as coordination of the Entity's different areas of business, support and control, and other key areas. The committee meets at least once a month and its members are the following:

- General Manager
- Deputy General Manager responsible for Internal Control
- Deputy General Manager responsible for Business
- Director of Global Risk Management
- Director of Finance
- Director of Centralised Back Office
- Director of Human Resources
- Director of Information and Technology Systems
- Director of Banking Business
- Director of Corporate Social Responsibility and Communication
- Director of Capital Markets

- Director of Organisation and Innovation

And those specifically responsible for the insurance and pensions business and the Group's investments, respectively:

- General Manager of Caja de Ingenieros Vida
- General Manager of Caja Ingenieros Gestión

## MANAGEMENT AND SUPERVISION COMMITTEES

Committees responsible for decision-making on economic, regulatory and business matters:

- Delegated Executive Committee
- Business Committee
- Foreclosed Property Supervision and Monitoring Committee
- Quality Committee
- Internal Control Committee
- MiFID-RIC/AM Committee
- Anti-Money Laundering Committee
- Reputational Risk Committee
- Global Risk Policy Committee
- Loans Committee

- Credit Policy Committee

- Financial Markets Committee

- ALM Committee

- Health and Safety Committee

- Recovery and Resolution Plans Committee

- Internal Control Committee

## 5.2

### GOOD GOVERNANCE

Since it was established, the Entity has possessed a business model based on the application of values such as ethics, commitment and trust which provides added value to its stakeholders.

It also has mechanisms that allow it to provide 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 Entity and the daily work performed by all of its employees. The Code is therefore a tool used by employees, managers and members of the governing bodies to ensure fulfilment of the 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 the rules of conduct implemented and is the body responsible for monitoring and investigating any breaches detected and reported through this channel. In this regard, the Internal Control Committee reports on the following aspects to the governing bodies:

- Deficiencies detected in procedures and/or internal controls that have the potential to jeopardise the the Entity's corporate integrity.
- Actions performed to ensure fulfilment of the Code's criteria and guidelines.
- Any steps or measures taken to resolve ethical disputes occurring during the course of the Entity's operations.

### 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. Notwithstanding the above, the Governing Board delegates its approval to the Executive Committee of Caja de Ingenieros. 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, including initial and periodic assessment of eligibility criteria regulated by current legislation. It also provides specialised assistance to the Governing Board itself, its Executive Committee and the Boards of Directors of the subsidiaries of Caja de Ingenieros Group (which will make sure that the Remuneration Policy includes criteria and rules of application appropriate to their structure, size and risk profile) within its scope of action.

The Governing Board approved Selection and Appointment 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 to ensure that the Governing Board as a whole has adequate powers to perform its duties and govern the Entity effectively, taking into account its scale, size and complexity. The procedures for selecting Board members promote a diversity of experience and knowledge, and are not in any way biased or discriminatory.

A Prudential Relevance Report is published annually. This document makes available to stakeholders the Group's risk management system, which consists of a system of governance and organisation of the risk function, a risk appetite framework, a management model that includes self-assessment and comprehensive monitoring of risks, and an adequate allocation of human and technological resources for the effective management and supervision of the model.

'Ethics and accountability as cornerstones of conduct with our stakeholders'

'Ethical commitment as the responsibility of all'

'Transparency as a cornerstone of our management, including in matters of remuneration'

'Conflict of interest is prevented through different mechanisms'





06

CREATING SHARED VALUE



## 06

## CREATING SHARED VALUE FOR OUR STAKEHOLDERS

The Group's activities are based on the generation of shared value between Caja de Ingenieros and its most important stakeholders: members/customers, employees, suppliers and society. For this reason, and given their importance, stakeholders are represented by the Governing Board as a whole, and by its corresponding committees.

**Members/Customers:** the main focus of the activities, the Entity bases its commitment to members/customers on the creation of long-term value, offering maximum information transparency and encouraging ongoing dialogue through existing channels.

**Employees:** the Entity has implemented a model of interrelation and organisation for the staff who participate in its day-to-day business. We encourage and help staff to train and develop in order to enhance their talents, abilities and skills. Regarding the principles of equal opportunity and balancing personal and

professional life, Caja de Ingenieros is committed to offering professional development opportunities to its employees, enhancing talent through training programmes.

**Suppliers:** supplier relations management includes the application of corporately established criteria to regulate the acquisition of goods and services following objective and transparent decision-making processes. Extendable to all Group entities, the objective is to promote, whenever possible, the presence of a plurality of suppliers of goods and services, and seek to guarantee in each transaction the most advantageous terms for the Group.

**Society:** from its cooperative banking perspective, the Entity, since its founding, has always been committed to the social environment in its governance. Because of this, in addition to its commitment to innovation, growth and the implementation of best institutional

practices, it takes very seriously its social responsibility, which is closely related to the Entity's ethics, principles and culture of values. The remit of the Caja de Ingenieros Foundation, the social voice of the Group, is to champion engineering and organise initiatives to promote education and culture, thereby contributing to the encouragement of talent and excellence.



# 6.1

## TEAM

### 6.1.1 Staff profile

A professional team committed to the values of the Group and experienced and qualified to carry out the services offered to members is essential.

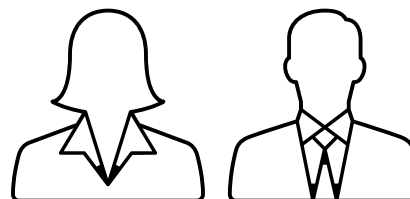
In this regard, the Entity strives to create high-quality jobs, offering its employees the possibility to train and develop their professional careers with excellence and always ensuring that permanent dialogue is maintained between all staff who belong to the Group.

### A PROFESSIONAL, WELL-TRAINED AND EXPERIENCED TEAM

444

professionals belong to  
Caja de Ingenieros Group

+6.4% vs. 2015



402.67

employees make up  
the average staff

98.00%

have a permanent contract

99.51%

work full time

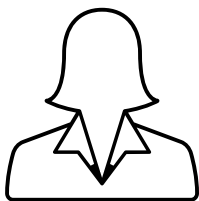
8.07%

staff turnover rate

68.00%

have a university degree

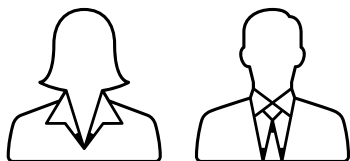
	2016	2015
Average staff	402.67	371.58
% women	43.00	44.21
% men	57.00	55.79
Average age	39.80	38.64
% of permanent contracts	98.00	98.94
% with university degree	68.00	64.47
Staff turnover rate [(new employees + voluntary departures) / 2*100] / average staff	8.07	11.98



female employees

43%

parental leave granted



14

13

### 6.1.2 Equal opportunities

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. We also ensure that Caja de Ingenieros is a discrimination-free zone.

To facilitate this, we have compiled an Equality Plan and a communication manual that introduces the gender perspective to all of the Entity's communication actions.

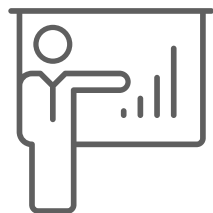
An effective way to facilitate equal opportunities is to implement measures that ensure a good work-life balance for staff. The Entity's corporate manual explains all work-life balance measures available. These include flexible working hours, parental leave, unpaid sabbaticals and intensive working days at certain times of the year.

Caja de Ingenieros' staff consists of 43% women and 57% men, percentages that has remained stable over recent years. Remuneration and working conditions between the genders continue to equalise, although, in certain professional categories, there is still a greater preponderance of men than women.





‘Our priority is to offer opportunities that create value for the Entity through training’



2,440

participants on training courses  
in 2016

30,667

training hours  
(76 h/employee)

### 6.1.3 Training

The annual Training Plan is drawn up according to needs detected in the different areas and departments of the Entity to encourage continuous learning.

The training courses carried out in 2016 were attended by 2,440 participants, representing 30,667 training hours (76 hours per employee).

Human Resources continued the training of personnel who offer information and advisory services, and as of the end of 2016, 69% of staff were EFPA certified.

### 6.1.4 Relations with senior management

In order to ensure open and direct communication, a work environment based on trust and close relationships is encouraged to strengthen ties between senior management and staff.

Caja de Ingenieros' three staff committees are the main mechanism for participation and dialogue with Management.

There is also a 'Breakfast with the General Manager' initiative which has been running for a number of years. On a monthly basis, members of staff meet the General Manager in an informal and relaxed atmosphere to share ideas and proposals. An opportunity for discussion to encourage the sharing of opinions and views.

The 'Suggestions Box' is a resource to facilitate staff participation and collect ideas about innovative improvements and proposals.

In this regard, 2016 saw the creation of the Drivers of Innovation Network, which involves the forming of cross-cutting work groups on a quarterly basis through individual applications to develop specific projects.

‘Strengthening our internal relationships through open and direct communication’



## 6.2

### MEMBERS

#### Products and services for members

Meeting the expectations of members means pursuing continuous improvement. To achieve this, the Group constantly strives to invest in technological development and to enlarge its portfolio of products and services to meet the needs of members.

##### 6.2.1 Accounts and deposits

In 2016, emphasis was placed on the conservative nature of products available to members and efforts were made to promote the acquisition of products through **ONLINE** Banking.

Against the current backdrop of the market, 2016 saw the issue of the following products: Estructurado Tríples, Digital 36, Podium 36 (3 issues) and Trí-Lider.

September 2016 saw the beginning of the marketing of Fondepósito, an investment that combines a high-return deposit with an alternative investment fund.

##### 6.2.2 Financing services

In the mortgage area, tailored solutions are offered in mortgage loan proposals, with different options in both interest rates and repayment terms. In 2016, Hipoteca Hogar reached the figure of 477 transactions formalised for a total of almost 83 million euros, which represented year-on-year increases of 21.37% in the number of transactions performed and 28.88% in the amount granted.

In terms of personal loans aimed at financing personal and family needs, advances of up to 2 pay cheques were launched at 0% interest and no additional costs, which joined the different financing modalities in this segment, among which the pay-cheque loan stands out.

The loan portfolio increased by 1%, which represents an increase of 85.9 million euros, in comparison to the sector, which fell by an average of 3.97%.



## FINANCING FOR COMPANIES

In 2006, new products and specialised services for companies were launched and partnerships were entered into with organisations that specialise in the distribution of specific financing lines.

In particular, various lines of collaboration were opened or expanded with the Catalan Institute of Finance (ICF) and the European Investment Fund. With the collaboration of the ICF, a financing line of up to 30 million euros was started to promote the competitiveness, consolidation and growth of Catalanian SMEs under very competitive terms. The initiative was co-financed between the European Union, through funds from the European Regional Development Fund (ERDF), and Caja de Ingenieros, which acquired exclusive distribution of the financing line, which was fully placed during the 2016 financial year.

With the European Investment Fund and the mediation of the Spanish Cooperative Bank, the SME initiative line was launched for the distribution of another 10 million euros among Spanish SMEs in the autonomous regions of Andalusia, Aragon, the Balearic Islands, Madrid and Valencia.

These initiatives, along with other company financing solutions and services, enabled us to reach a total financing amount of 119.5 million euros, which represents a year-on-year

increase of 45%. The average amount for transactions formalised increased from 180,000 euros in 2015 to 323,000 euros in 2016.

## FINANCING FOR YOUNG PEOPLE

In order to facilitate the financing of the studies of young people, for the fourth consecutive year, the Entity took advantage of its arrangement with AGAUR (Agència de Gestió d'Ajuts Universitat de Recerca) for the financing of university and postgraduate studies in all of Catalonia's public universities. 2016 saw year-on-year increases of 11.70% in the number of transactions performed and 18.85% in the amount granted.

Relationships were established with various other autonomous regions in Spain in order to launch similar products in their public universities.

2016 also saw the inclusion of another loan modality for the financing of undergraduate and postgraduate studies, in this case at 0% interest and with a repayment term of up to 10 months. This product resulted in a 375% increase in the number of transactions and 306.72% increase in the amount granted with respect to 2015.



### 6.2.3 Payment systems

The Card Benefit scheme focuses on the security of transactions carried out using different payment systems.

In 2016, technological improvements associated with security, such as cards equipped with next-generation chips, continued to be promoted.

Contactless technology was also incorporated into all credit cards and POS terminals for faster and more secure payments.

The sending of free SMSs informing of transactions carried out both nationally and internationally was reinforced and two-factor authentication was implemented in order to improve the **ONLINE** Banking and **Mobile** Banking experiences of members. Improvements were also made in usability and new functionalities were added to facilitate all online processes.

### 6.2.4 Investment products

The total amount managed in terms of products structured in deposit and unit-linked formats with protected capital and indexed to different baskets of Spanish and European shares amounted to 26 million euros in 2016.

In the month of April, Caja de Ingenieros participated as Underwriter in the new issue of low-tax bonds for Audasa, Autopistas del Atlántico, Concesionaria Española. In this 10-year issue with tax rebate on withholding income tax, the Entity generated a total of around 200 orders from members.

In July 2016, we launched a new portfolio management service called Discretionary Management of Fund Portfolios 70/30, which, together with Insignia, completes the Discretionary Management Service range. The service is based on the management quality of Caja Ingenieros Gestión's investment fund catalogue, complemented by a qualitative and quantitative analysis of funds from other national and international managers.

The total assets managed by both portfolio management services showed strong growth in the financial year and we recorded, at the close of 2016, assets under management in excess of 130 million euros from a collection of approximately 1,000 portfolios managed.



### 6.2.5 Investment management

In addition to lending, we maintain a fixed-income and investments portfolio that reflects different asset and liability, and liquidity, management strategies implemented in accordance with the Entity's general policies, with interest rate, balance sheet and credit risks maintained at levels consistent with the Group's risk appetite.

In addition, regarding financial asset brokerage activities with members and wholesale customers, the Entity participates in the primary and secondary markets of government debt and corporate bonds, both domestic and international, as well as in the international derivatives markets, both European (MEFF, Eurex and LIFFE Euronext) and US (Chicago Mercantile Exchange).

Moreover, as member of the Spanish fixed-income AIAF market and member of the Alternative Fixed-Income Market (MARF), we possess Iberclear, CADE, Euroclear and Cedel settlement systems and platforms, and we are a collaborating entity in the Regional Government of Catalonia's debt issues programme.

As issuer of asset-backed securities, we participate as a member in European DataWarehouse GmbH, the European

securities issuance information database, an initiative of the European Central Bank whose aim is to increase the transparency of information in the securities market.

### 6.2.6 Insurance activities

The Group's insurance business takes advantage of the synergies it has with the financial institution and the ease of identification and optimisation of capacities and knowledge in areas such as investment management and risk control and management.

Caja de Ingenieros Group's insurance business is carried out on two fronts. From the point of view of the creation of its own life and pensions products, it has Caja Ingenieros Vida y Pensiones, a company founded in 2008 through which the Group creates and manages life insurance, savings and retirement solutions. From the perspective of insurance broking for non-life segments, it maintains agreements with other companies in the sector through Caja Ingenieros, Operador de Bancaseguros Vinculado, SLU.

This company reached a total of 39,300 policies brokered, representing a year-on-year increase of 13.2%. New business in 2016 amounted to a total of 9,672 policies, which represents 9.3% more than the previous year.

Regarding the distribution of the portfolio, the highest volume of premiums was in Life (29.8%), followed by Home (21.7%), Payment Protection (14.1%), Health (12.6%) and Auto (8.0%).

'Thanks to our insurance advisory service, we can offer personalised proposals to ensure correct coverage of all risks'



### 6.2.7 Member/Customer Service Department

The Member/Customer Service Department, or in certain cases, the Member/Customer Ombudsman, is responsible for handling complaints and claims submitted and has the necessary independence to issue the appropriate decisions. These powers are set out in Caja de Ingenieros Group's Member/Customer Service Regulations.

In 2016, a total of 56 complaints and claims were received and handled, resulting in 22 resolved in favour of the Group, 4 resolved in favour of the member, 6 pending reply by the body to which they were submitted, 19 resolved through acceptance by the Group and 5 not accepted for processing due to incorrect form. These figures include complaints and claims opened in 2015 and resolved in the 2016 financial year.

### 6.2.8 Internal control

Caja de Ingenieros carries out the assessment, control and monitoring of the risks inherent to the Entity's activities and promotes a rigorous model of global risk management. As part of this model, the areas of Security, Regulatory Compliance and Internal Audit oversee the adequacy and effectiveness of the internal control.

Security analyses security-related risks from a comprehensive point of view. The service used is CiberSOC-CSIRT, which consists of the deployment of a 24x7 information system security monitoring service for the rapid detection of intrusive or unauthorised actions and employment of a team that specialises in the resolution of incidents affecting information systems. A Cybersecurity Master Plan has also been drafted to improve Caja de Ingenieros Group's capabilities against external attacks.

The Regulatory Compliance area revises and adapts the operating rules of the governing bodies of all of the entities that make up Caja de Ingenieros Group to ensure compliance with the standards, best practices and regulations required by the sector, incorporating aspects of self-regulation in the management of conflicts of interest and the establishment of clear and specific rules of conduct, functions, responsibilities, duties and obligations.

We currently feature an exclusive section in our corporate website that outlines the legal requirements and will soon include additional aspects that will make

Caja de Ingenieros Group's system of governance even more transparent.

bylawIn 2016, an Internal Audit By-law was created, consolidating our model of three lines of defence, Internal Audit being the third with a clear concept of independence regarding operating and business areas.





### 6.2.9 Communication

Throughout the year, information about Caja de Ingenieros Group was published in 836 articles in leading newspapers and magazines, representing an audience of more than 77 million of readers.

In addition, 2016 saw further consolidation of our presence, which began in 2013, on social media as a means of communicating with members. We are currently present on Facebook, Twitter, YouTube, LinkedIn, Instagram, Google+ and Periscope, and have managed to become one of the leading financial institutions for the number of followers we have in proportion to total

members. As of 31 December 2016, Caja de Ingenieros Group's online social media community exceeded 35,000 followers. Compared to 2015, we increased our followers on LinkedIn by 80%, Twitter by 74%, Periscope by 52% and Facebook by 10%.

Through social media, we attended to 300 members, most of whom chose Twitter as their preferred channel for communicating their queries, questions and complaints.

### CORPORATE SOCIAL RESPONSIBILITY CERTIFICATE

In 2016, Caja de Ingenieros was again recognised by the Association for Self-Regulation of Commercial Communication, better known as Autocontrol, with a Corporate Social Responsibility Certificate and an 'Equality in the Workplace' marking.

The Corporate Social Responsibility Certificate recognises the compliance of all of Caja de Ingenieros' commercial communications with Autocontrol's Advertising Code of Conduct, a code of ethics that promotes ethical advertising and consumer rights. The 'Equality in the Workplace' marking certifies that Caja de Ingenieros' advertising does not contain sexually discriminatory content.

In 2016, 157 advertising content queries were made to Autocontrol and only 17 needed to be amended. In turn, Autocontrol dealt with 81 legal and 5 technical queries regarding cookies in Caja de Ingenieros' advertising.





## MEETINGS

### Current determining factors in the macroeconomic and financial environment: how to position oneself in the current market

Barcelona, Madrid

### Value in European equity: an autumn to invest?

Madrid

### Value in European equity: a summer to invest?

Barcelona

### Investing in Social Responsibility Funds: Caja de Ingenieros' ISR model

Girona

In 2016, we continued to hold our 'Caja de Ingenieros Meetings' to inform about market environment and prospects. These meetings are based around talks aimed at members in which topics of interest are discussed. By promoting direct contact with investment managers, these events are an opportunity to strengthen the financial culture of members and adapt products to their needs.

In collaboration with the Capital Markets Department and the Investment Fund Manager, meetings were organised in different Spanish cities with a dual purpose: to encourage the relationship between the commercial area and members and strengthen member services. The events had the following titles: 'Current determining factors in the macroeconomic and financial environment: how to position oneself in the current market'; 'Value in European equity: an autumn to invest?'; 'Value in European equity: a summer to invest?'; 'Investing in Social Responsibility Funds: Caja de Ingenieros' ISR model'.

Thanks to public relation events, such as the Meetings, we manage to reach members in a clear and direct manner, providing financial and insurance information.

Throughout 2016, a total of 22 stock market and investment fund workshops were held in various locations: Barcelona, Madrid, Zaragoza, Seville, Malaga, Girona, Tarragona and Valencia. 10 focused on investment in the stock market and 12 on financial markets, and they were attended by more than 500 members.

Meetings were also held in Madrid, Barcelona and Malaga. These events addressed current economic and financial themes and were attended by approximately 1,000 people.



### 6.2.10 Ingenium Shopping

At the end of 2016, Ingenium Shopping had the collaboration of 142 commercial firms (131 as of 31 December 2015) and its geographical coverage was nationwide. 230,216 transactions were carried out, compared to 214,472 in 2015, representing an increase of 7.34%. The volume of purchases made by the members of the Cooperative went from 9,408,384 euros in 2015 to 10,122,393 euros in 2016, an increase of 7.59%.

# 142

collaborating entities  
+8.26%

# 230,216

member transactions  
+7.34%

# €0.12€M

volume of purchases made  
by members  
+7.59%



### 6.2.11 Creating value for members

#### MOBILITY

In 2016, work continued on improving and growing the **Mobile** Banking channel. The Entity promotes the digitisation and expansion of its range of communication and personal finance management channels for members. All of them are offered the opportunity to freely select their preferred channel and ensured that they can enjoy the same services with a unique user experience whatever their choice.

2016 saw the incorporation into the app's cashpoint locator of the possibility of searching the over 8,000 cashpoints that are part of an arrangement that allows our members to make up to 5 cash withdrawals a month without charge.

The app also features a currency calculator and enables members to perform all main **ONLINE** Banking transactions. In addition, with their direct access to Ingenieros Stock Market, users can also consult the main markets and all financial news.

#### ACCESSIBILITY AND USABILITY

Caja de Ingenieros promotes social banking by bringing its products and services closer to all groups through its Digital Banking, which is, above all, a bank for people, Social Digital Banking, without barriers, available to each and every one of us.

The Entity's commitment to accessibility and usability in relation to its various communication channels and services began in 2012 with accessibility certification of the online channel. This certificate guarantees that Caja de Ingenieros' **ONLINE** Banking complies with the Double-A web accessibility level of the W3C-WAI Web Content Accessibility Guidelines. This provides ease and usability and allows members with a disability to access all information and transactions available without barriers. In 2016, Caja de Ingenieros Gestión obtained Double-A level web accessibility certification for Ingenieros **FUNDS**, its new investment fund website.

Also made available were access code cards in braille and large lettering for people with visual impairment (total or mild impairment, colour blind people, elderly people, etc.) in order to enable them to make

**ONLINE** Banking, **Mobile** Banking and **TELEPHONE** Banking transactions. With these different formats, we ensure that all of our members can fully access their accounts and sign transactions without technological barriers.

In 2016, in collaboration with Ilunion Accesibilidad, Estudios y Proyectos, a specialist company belonging to the ONCE group and its Foundation, a consultation was carried out to explore how to apply accessibility criteria to the **Mobile** Banking app. We are currently working on ensuring that the app can be used by people with any kind of disability.

In September 2016, Ilunion AEP recognised Caja de Ingenieros with an award for its initiatives and projects to improve universal accessibility to all of its channels and websites.



## 6.3

### SOCIAL RESPONSIBILITY AND SUSTAINABILITY

#### 6.3.1 Education and Promotion Fund

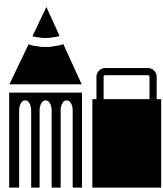
The Education, Training and Promotion Fund is allocated funds to be used for certain activities that benefit members, workers and the community in general.

The purpose of the Education and Promotion Fund 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 the performance of 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.

The budget for the 2017 financial year is 680,000 euros as per the breakdown presented below, which will be submitted to the General Meeting for approval.

#### EDUCATION AND PROMOTION FUND BUDGET



400,000  
Training

30,000  
UNACC (National Union of Credit Unions)

250,000  
Social projects (allocation to the Caja de Ingenieros Foundation)

Amounts expressed in euros





260  
projects

200  
scholarships and awards

407  
candidates for  
Caja de Ingenieros'  
entrepreneurship awards and  
scholarships

+1,530  
people enrolled on social  
reintegration courses with  
priority to the unemployed

### 6.3.2 Caja de Ingenieros Foundation

The Caja de Ingenieros Foundation promotes and uses dialogue and cooperative principles to strengthen social cohesion and foster initiatives to solve problems faced by society in various areas. The Foundation's Annual Report describes the activities it carries out in its different areas of activity.

The Caja de Ingenieros Foundation, a private, non-profit organisation, was founded with the purpose of strengthening the Entity's social commitment and managing resources aimed at the promotion of activities to foster a fairer, freer and more cohesive society.

The Board of Trustees is the body responsible for drawing up the Foundation's annual plan in the areas of action of 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 six years of existence, 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. Since its founding, the Foundation has carried out more than 260 projects, allocated more than 3

million euros to collaborations and granted more than 200 scholarships and awards. 407 candidates have entered competitions for entrepreneurs and over 1,530 members have enrolled on courses.

Caja de Ingenieros has continued with the carbon management strategy initiated by the Foundation in 2011. As it does every year, in 2016, it offset the unavoidable emissions generated in 2015 through the funding of emission offset projects under the Clean CO<sub>2</sub> Certified project portfolio, thereby contributing to the reduction of greenhouse gases. Specifically, more carbon credits were acquired from the Bandeira and Capelli Ceramics Project (Brazil), whose aim is replacing 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. Fulfilment of the project also produces other additional benefits for the local population and area.

### FINANCIAL EDUCATION

A new area of action is financial education, which promotes the development of activities and the publication of information that contributes to improving the perception and financial 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.



### 6.3.3 The environment

Environment protection is a commitment that is included in our corporate social responsibility policy. Implementation is correct as long as it is respectful to environmental management.

Our main initiatives to improve environmental management are as follows:

- 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 computers 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.

The Foundation has also continued several projects related to the protection of biodiversity and the fight against climate change. It has maintained its collaboration with Acciónnatura for the conservation of mature forests and it has offset the CO<sub>2</sub> emissions generated by its activities in the 2014-2015 period with the purchase of carbon credits through the Clean CO<sub>2</sub> Certified project as part of the carbon management strategy it initiated in 2011.

The Foundation is also engaged in a very important study in collaboration with ESADE entitled 'The Low Carbon Economy', which will be presented in 2017 to major sectors such as food and finance. The aim is to raise awareness among the population of issues relating to the carbon footprint and to become a benchmark in Spain.

Caja de Ingenieros' Sustainability Report 2015 will be the first time that the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative are used.

With the aim of obtaining a certificate of exclusive use of green energy (renewable sources), Endesa was selected to supply all Group companies.



### 6.3.4 Socially responsible investment

Our clear vocation to respect and promote Socially Responsible Investment has led us to become active in proposals to members, our way of being and understanding the relationship with them.

The following milestones are examples:

- Since 2016, we have 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. Its mission is to promote the incorporation of environmental, social and corporate governance criteria into investment policies to contribute to sustainable development.
- We offer investment alternatives to our members.
  - Fonengin ISR (investment fund)
  - Global Sustainability ISR (pension plan)

Both products lead in their respective categories and have high reputational value.

Moreover, since 2014, Caja Ingenieros Gestión has adhered to the international principles of responsible investment (PRI). PRI 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, SGIC, being part of this organisation is a further step towards a model of sustainable management, reaffirming its consolidation strategy and vision of long-term growth.

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



Signatory of:





**07**

**MACROECONOMIC  
ENVIRONMENT**

## 07

## MACROECONOMIC ENVIRONMENT

## EMU

The eurozone maintained the pace of growth of the previous year and closed 2016 with an increase of 1.8%. The unemployment rate in the region was below 10% for the first time since 2009, showing the gradual improvement of the European labour market. Regarding inflation, there was a rise to levels above 1%, driven by the recovery of energy prices and the effects of the ECB's expansionary monetary policy.

From the perspective of individual countries, those on the periphery continued to recover and lead growth in the eurozone. In particular, Ireland and Spain, with gains of 7.2% and 3%, respectively, were the major contributors to the economic growth of Europe as a whole. Although the eurozone's main economies closed the year in positive, France and Italy recorded the lowest growth with gains of only 1%. Only the Greek economy was in negative and unable to recover a path of growth, despite the reforms introduced in 2015, and closed with a GDP of -1.1%.

From a geopolitical perspective, 2016 was marked by unexpected results in two referendums. The first came in June with the United Kingdom's vote to leave the European Union, known as Brexit. This result led to David Cameron being replaced by Theresa May and preparations to negotiate the divorce from the EU. The second referendum was held in Italy in December 2016 and resulted in a vote against the constitutional reform proposed by Prime Minister Matteo Renzi, who, after the result, was replaced by Paolo Gentiloni.

## SPAIN

In 2016, economic activity in Spain returned to solid growth at the end of the year with GDP growth of 3.2%, which was identical to 2015. This figure again stood out against the low growth backdrop of the main developed economies, being well above the average for countries in the eurozone. Domestic demand continued to drive growth, supported by continuous improvement in job creation, accessibility and affordability





of credit to both companies and individuals, and controlled inflation levels. At the political level, the PP candidate Mariano Rajoy, after more than 10 months as acting prime minister, was re-elected and sworn in after the abstention of the opposition.

Internal imbalances continued to show significant improvements during the period. Thus, competitiveness maintained its progress driven by a sharp reduction in labour costs, a fact that consolidated the good performance of the export sector with year-on-year growth of 1.7%. This growth in exports and a 0.4% fall in imports enabled a reduction of the trade deficit.

In 2016, and for the third consecutive year, unemployment fell and job creation

increased. According to Labour Force Survey data, the number of unemployed fell by more than 500,000 people, while 400,000 jobs were created, resulting in a final unemployment rate for the year of 18.6%, 2.5 percentage points lower than in 2015. On a discordant note, quality of jobs continued to be poor, with a large proportion of part-time positions, and the long-term unemployment rate remained high, among the worst in the European Union.

Finally, the property market consolidated its recovery due to increased sales and decreased inventories, one of the main disadvantages that prevented a full recovery of the sector. Greater activity in the sector resulted in a recovery of property prices.

## USA

The US economy maintained its pace of economic growth for the seventh consecutive year, recording an increase in GDP of 1.6%. The labour market continued to boost economic activity with an unemployment rate that closed at 4.7% and a participation rate of 63%. Both retail consumption and business activity data continued to progress positively and the various confidence surveys recorded peak levels. Regarding the evolution of consumer prices, the CPI stood at 2.1% at the end of 2016.

The Federal Reserve maintained the balance in terms of monetary policy in order not to derail the expansionist path. With all of the data on growth, inflation and global risks on the table, the FED

decided to raise rates by 25 basis points, raising the range up to 0.50%-0.75%, and continuing on from the first rate rise seen in 2015. This rise will certainly not be an isolated case, with the market anticipating up to three additional increases in 2017.

On a political level, against all the odds and as a result of popular discontent with the established political class, property mogul Donald Trump was elected the 45th President of the United States, beating the Democrat candidate, Hillary Clinton.

## EMERGING ECONOMIES

During the year, emerging economies experienced growth well below their potential, ending with an increase in

GDP of 4.1%, the same as in 2015. The focus returned again to the evolution of commodity prices, given the high predominance of this sector in the exports of many emerging countries. After a period of sharp falls, commodity prices recovered in the first quarter of the year and later ended the year with high revaluations. Although there were several triggers, the main common denominator was adjustment of imbalances between supply and demand. In the particular case of oil, the agreement by OPEC to collude on prices, led by Saudi Arabia and supported by Russia, helped contribute to stabilisation.

China maintained its economic transition towards a growth model based more on the consumption of goods and services. After finishing the year with growth of 6.7%, compared to 6.9% the previous year, the Asian giant was able to meet the government's economic expectations thanks to its expansionary monetary and fiscal policies. This economic stability, coupled with the implementation of capital control measures, allowed it to mitigate doubts about sustainability in its new economic model and foreign exchange reserve implications, generating greater confidence both in the country and in the world economy. Nevertheless, its long-term challenges remain and the current process towards changing its growth model will continue to cause uncertainties for the Chinese and world economy.

The countries of Latin American experienced a difficult year after a decline in activity of 1% against the minimum gain of 0.1% the previous year. Despite indicators that point to a recovery in activity, the Brazilian economy continued to be the worst performing with a drop in GDP of 3.6%. Meanwhile, Mexico, which ended with an increase in GDP of 2.3%, showed no signs of slowing despite the election of Donald Trump as the new president of the United States. The consensus of analysts predicted an economic slowdown given his aggressive anti-free trade rhetoric, with special emphasis on the NAFTA treaty, which benefits interregional trade between the US and Mexico, but the effects of new policies and agreements remain to be seen.





## 7.1

### FINANCIAL MARKETS

During the first months of the year, the financial markets were marked by falling oil prices and China's macroeconomic performance. The publication of lower than expected Chinese macroeconomic data, coupled with increased capital outflows, called into question the government's ability to energeise an economy in the midst of an economic model change. In its attempt to stabilise the currency's exchange rate, the People's Bank of China (BPOC), throughout 2016, tightened its monetary policy (increased short-term interest rates) in order to curb the outflow of capital.

In March, the European Central Bank (ECB), faced with weaker than expected growth and inflation prospects, decided to reduce the official interest rate by 5 basis points to 0% and the rate applicable to the deposit facility by 10 basis points to -0.40%. It also announced an increase in monthly purchases under the QE asset purchase programme from 60 billion to 80 billion euros, incorporating on the list of eligible assets corporate fixed income with investment grade rating in euros issued by established companies in the eurozone not belonging to the banking sector. Finally, the ECB announced that it would start a new series of four four-year TLTRO II funding transactions starting

in June to boost bank lending to the real economy.

In August, following the UK's Brexit referendum in June, the Bank of England (BoE) adopted a package of additional measures to support economic growth during post-referendum times of uncertainty. The new measures included a reduction of official interest rates by 25 basis points to 0.25% and expansion of the asset purchase programme that was financed through an increase in the central bank's own balance sheet.

Although the BoE itself considered the impact of Brexit to be difficult to quantify, it emphasised that it expected a reduction in the disposable income of British citizens because of depreciation of the pound sterling and expected higher costs in international trade. The BoE also stressed that it expected a significant drop in private investment because of the period of uncertainty after the referendum.

In September, with the intention of raising underlying inflation to its 2% target, the Bank of Japan (BoJ) decided to change the composition of its Quantitative Easing programme while keeping the pace of balance sheet expansion intact. With the aim of avoiding an excessive fall in the yields of the longest segment of the sovereign debt curve, which could harm savers and financial institutions, the entity headed by Haruhiko Kuroda

introduced purchases of public debt at a fixed interest rate defined to control the slope of the curve.

In December, the US Federal Reserve decided to raise, for the first and only time in 2016, the interest rate range by 25 basis points to 0.50%-0.75%. The positive evolution of macroeconomic data in late 2016, in terms of prices and the unemployment rate, enabled the entity chaired by Janet Yellen to take a step forward on the path towards normalisation of its monetary policy. In relation to the timing of monetary policy adjustments in the future, the Fed re-emphasised that these would be contingent on inflation, the labour market and economic growth at international level.

With respect to fixed income markets, 2016 saw a continuation of generalised appreciation, boosted by low levels of inflation, weak global economic growth and an accommodative monetary policy by the ECB, BoE, BoJ and People's Bank of China, despite the fact that the Federal Reserve prudently raised the official interest rate.

In Europe, the yield on the German 10-year bond dropped to a negative level (-0.20%) after the British referendum in a generalised movement towards risk aversion in the financial markets, thus acting as a safe-haven asset. As for the evolution of peripheral sovereign debt in



US interest rates

0.50-0.75%

Europe, there was an uneven evolution throughout 2016 between Spain and Italy. Political uncertainty in the second half of the year in Italy, coupled with a lack of structural reform, increased the Italian risk premium from 97 basis points in early 2016 to 161 by the end of the year. In Spain, good macroeconomic momentum, along with economic growth above the European average, kept the risk premium practically unchanged around 115 basis points, with the cost of debt financing at 10 years reduced to 1.38% from 1.77% at the beginning of 2016.

Meanwhile, short-term European sovereign debt firmly remained at record lows, even at negative interest rates, because of the ECB's expansionary monetary policy.

In the US, good economic performance, together with a slightly less accommodative Federal Reserve, led to a slight rebound in US sovereign debt yields, with 10-year bond yields rising to 2.44% by the end of the year from 2.27% at the beginning. Profitability of the shortest part of the curve (2 years) also increased slightly, keeping the slope of the curve virtually unchanged.

In Britain, the downward revision of expectations of economic growth and the reduction of rates announced in August by the BoE after Brexit reduced the profitability of the entire curve of British sovereign debt. After the announcement of the BoE, 10-year sovereign debt yield reached the historical low of 0.51% before closing 2016 at 1.24%.

Regarding investment-grade and high-yield credit, both performed similarly. Both experienced sensitive increases in the first part of 2016 in the face of doubts about the Chinese economy and the sharp fall in commodity prices. In this way, the European credit spread with investment grade in February in relation to the risk-free asset increased 125 basis points from 90 at the beginning of the year, while its high-yield counterpart increased to 500 basis points. Thereafter, supported by an improvement in both economic activity and confidence data, stabilisation of commodity prices and the ECB's performance, the 'IG' and 'HY' credit spread narrowed to 72 and 288 basis points, respectively, closing 2016 at annual lows.

After five consecutive years of decline, commodities became the most profitable asset class in 2016, surpassing even the steep falls in the first part of the year. Equity indices also saw double-digit gains in emerging and developed markets. In the case of fixed income, global indices made gains in a general context of falling curves and slightly narrower credit spreads. As for currencies, the Brazilian real and the South African rand experienced the greatest appreciation against the US dollar, while the Mexican peso and pound sterling suffered the largest depreciations.

In the US, in an election year that saw the appointment of Donald Trump as the new president, the S&P ended the year with a rise of 9.5%, while the Dow Jones was up 13.4%. In sectoral terms, the best was basic materials and the worst basic consumption and health. In the corporate world, companies continued to perform well in terms of cash generation, which allowed shareholder remuneration and balance sheet strength to remain high in a year in which corporate transactions returned to 2007 levels both in terms of number and volumes.



In Europe, 2016 saw two critical moments that did not prevent, in general terms, its main indices from ending in positive territory. First, doubts about the Chinese slowdown, the collapse of the oil price, loss of confidence in the central banks and symptoms of possible US weakness gave rise to sharp falls in the first weeks of the year, reaching their maximum level in mid-February, with stock markets accumulating declines of over 15%. Thus, at the end of the second quarter, the unexpected result of the referendum in the United Kingdom led to a strong but very short-term correction, which was the turning point for risk assets in the second half of the year. Against this backdrop, the Eurostoxx 50 increased by 0.7% in 2016. For its part, the IBEX 35 fell by -2.01% in a year that was especially positive for companies linked to commodities. As in the American case, European mining and oil and gas companies recorded the largest increases, while in this case, the telecommunications sector was the worst hit with most companies in the index in negative territory.

Emerging markets capitalised on market interest in the first weeks of the year, with uncertainty about the economic slowdown in China and sharp declines in commodity prices. Subsequently, the recovery in commodity prices and a more accommodative tone by the central banks gave way to a strong recovery of emerging indices, even overcoming Brexit and the victory of Republican candidate Donald Trump in the US. As for specific geographic areas, particularly noteworthy were worsening internal turmoil in Turkey, continued difficulties for the Brazilian economy and the decision by the Indian government to demonetise the economy by suppressing more than 75% of the banknotes in circulation with the aim of weakening the black market. In the end, the Brazilian Bovespa index recorded the highest increase, while the Turkish stock market was one of the worst performing.



## 7.2

### SPANISH FINANCIAL SYSTEM

#### 7.2.1 Spanish financial system. Regulatory framework

In 2016, the eurozone's credit institutions showed stable but reduced profits. At the same time, its risks and challenges remained largely unchanged from 2015. The main challenge revolved around doubts about the sustainability of business models and the profitability of credit institutions. Other important challenges were the high levels of doubtful loans (NPLs) of some entities and geopolitical uncertainties, such as the impact of Brexit on the medium and long term.

Within the regulatory framework, the Single Supervisory Mechanism (SSM) is responsible for establishing the areas of supervisory focus in a given year. It

is based on an assessment of the main risks faced by supervised entities, taking into account the most recent economic, regulatory and supervisory developments.

The main tool of the SSM is the Supervision Review and Evaluation Process (SREP). As a consequence, the capital requirements of credit institutions have been more specifically adjusted to their individual risk profiles. On the whole, capital requirements resulting from the SREP remained practically unchanged. In 2016, European banking supervision advanced notably in the treatment of NPLs.

The completion of the Basel III review and the setting of targets in relation to minimum requirements for own funds and eligible liabilities (MREL - Minimum Required Eligible Liabilities) will reduce regulatory uncertainty and provide the environment in which credit institutions operate with greater stability. Meanwhile, banks are also preparing for

the application of IFRS 9 (International Financial Reporting Standards), which will come into force in early 2018 and focus on a new model of impairment and calculation of expected credit losses.

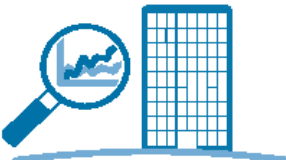



In 2016, the ECB subjected eurozone credit institutions to European Banking Authority (EBA) stress tests. They were conducted in 37 major institutions (which together account for around 70% of banking assets subject to European banking supervision). The results of the stress tests showed that:

- The banking system can withstand stress of even greater severity than that simulated in the comprehensive testing of 2014 and maintain, at the same time, on average, the same level of capital afterwards.
- The most significant factors that caused differences between the stress test result in baseline and adverse scenarios were an increase in credit

default losses, a reduction in brokerage margins and an increase in losses due to revaluation of market risk positions.

- In credit institutions with lower credit quality and higher NPL rates, the impact of stress on credit default losses and reduced brokerage margins was, on average, more negative, thus highlighting the importance of reducing high NPL rates.

Supervisory priorities for 2016 and 2017. Source: European Central Bank

Priorities for 2016	Priorities for 2017	Supervisory activities for 2017 and subsequent years	Likely to continue in 2018
<b>Business models and determining factors for profitability</b>	 Business models and determining factors for profitability	NEW Assessment of business models and determining factors for the profitability of credit institutions	<input type="radio"/>
<b>Credit risk</b>	 Credit risk, with special attention to NPLs and concentrations	NEW Preparations for Brexit - dialogue with the entities	<input checked="" type="checkbox"/>
<b>Capital adequacy</b>		Competition from non-bank entities / Fintech	<input checked="" type="checkbox"/>
<b>Governance of risks and data quality</b>	  Risk management	Uniform criteria for NPLs and refinanced/restructured exposures (e.g. in-depth reviews/ on-site inspections)	<input checked="" type="checkbox"/>
<b>Liquidity</b>		Assessment of the degree of preparation of entities for IFRS 9	<input type="radio"/>
		Keeping track of exposure concentrations (e.g. shipping or property)	<input checked="" type="checkbox"/>
		Assessment of compliance with Basel BCBS 239 - Principles for effective risk data aggregation and risk reporting	<input type="radio"/>
		TRIM Models of credit, market and counterparty risk	<input checked="" type="checkbox"/>
		Improvement of the ICAAP and ILAAP of entities	<input checked="" type="checkbox"/>
		Outsourcing	<input checked="" type="checkbox"/>



### 7.2.2 Evolution of business in the financial system

Stability is observed in the total retail financing amount, which closed practically flat in relation to 2015. With regard to the composition of financial liabilities, a move away from term deposits (-21% in 2016) to demand/savings accounts (+16.3% in 2016) continued to occur. Short-term interest rates continued to move in negative territory, which is why banks needed to adapt the cost of liabilities to this environment. The ever decreasing difference between deposit and current account rates continued to cause savers to not relinquish the immediate availability of money offered by current accounts.

Wholesale financing was down by slightly more than 9% with respect to 2015. Entities took advantage of the latest ECB auctions of liquidity at 4 years (T-LTRO2) with costs of up to -0.40% based on the ratios of new non-mortgage lending to the private sector in order to diversify sources of term financing and move away from debt issues in the capital markets.

The total balance, on an aggregate basis, of all credit institutions and financial credit institutions was 2.646 billion euros at the close of 2016. In that year, there was a contraction of 4.1%, mainly due to a reduction in fixed-income portfolios (-12% year-on-year), as the entities unwound positions in order to generate surplus value to complement the traditional business, and a decline in loan

portfolios (-2.76% year-on-year).

In terms of lending, there was a continued decrease in relation to public authorities and, to a greater extent, a fall in lending to the residential private sector (-3.84%) in all segments except consumption (+5.0% at the close of the year) due to the financial sector's continuing process of deleveraging. New lending continued to grow, but to a lesser extent than maturities, which resulted in another financial year with net declines in loan portfolios.

The following table shows a breakdown of lending activity to the private sector by segment (2012-2016)

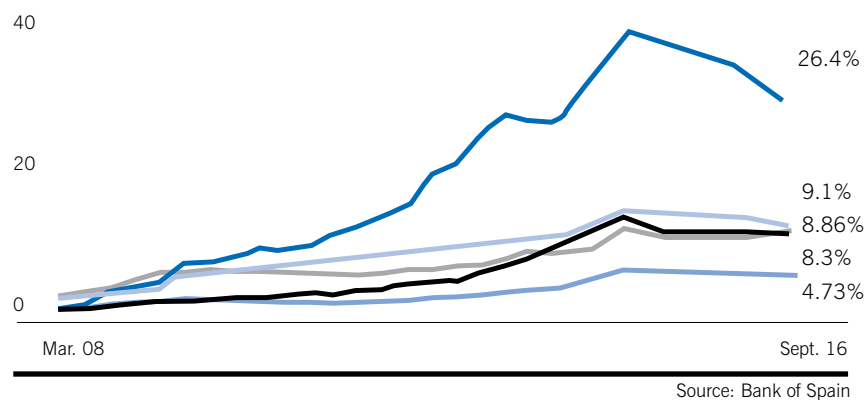
### Breakdown of lending to the private residential sector

SEGMENT		2010	2011	2012	2013	2014	2015	2016
Companies (not related to construction)	Billions of euros	583	574	529	482	474	465	444
	Annual change (%)	---	-1.5%	-7.8%	-9.0%	-1.6%	-1.9%	-4.5%
Households: property	Billions of euros	663	656	633	604	579	552	535
	Annual change (%)	---	-0.9%	-3.5%	-4.6%	-4.1%	-4.7%	-3.0%
Households: consumption	Billions of euros	150	137	123	111	110	112	117
	Annual change (%)	---	-8.7%	-10.5%	-9.8%	-0.2%	1.1%	5.0%
Property development and construction	Billions of euros	430	397	300	237	200	179	161
	Annual change (%)	---	-7.8%	-24.3%	-21.1%	-15.5%	-10.5%	-10.3%
Total lending to the private residential sector	Billions of euros	1,843	1,782	1,604	1,448	1,380	1,327	1,276
	Annual change (%)	---	-3.3%	-10.0%	-9.7%	-4.7%	-3.8%	-3.8%

In relation to new lending, there was a slowdown in price falls in 2016: for property, a slight decrease of 6 basis points with an average mortgage rate of 2% and an upward trend in fixed-rate financing; and for SMEs, the reduction is somewhat more pronounced (54 basis points) due to greater competition, with a smaller distance in prices determined by the size of the company observed.

Regarding credit quality, the financial year again closed with a double-digit decline in non-performing balances (-13.4%) and a default rate of 9.11%, 109 basis points lower than the December 2015 rate and far away from the high reached in 2013. In terms of the breakdown, there was a downward trend in defaults in all sectors, with those related to cyclical activities, such as construction, showing the best evolution quarter over quarter.

### Evolution of the default rate by segment



- Property development and construction
- Companies
- Mortgage
- Consumption
- Total default rate

Source: Bank of Spain

### BUSINESS RESULTS AND CAPITAL POSITION

The sector recorded a net profit of 6.089 billion euros in 2015, 34% lower than the previous year, mainly due to a fall in financial product revenues in a sector closely linked to short-term interest rates. In 2016, for the first time, the 12-month Euribor rate went into negative territory and remained at levels below zero for the rest of the year.

As a consequence, the interest margin fell by one percentage year-on-year, with financial income (7.2 billion euros) again falling more than financial costs (5.1 billion euros), which have a minimum repricing rate since they are already very close to 0%.

The gross margin, in turn, descended by around 1 billion euros, mainly due to a fall in Financial Transaction Results, which decreased by 6.21%. This item is not offset by an improvement in net fees, which closed the financial year practically flat (-178 million euros), with the contribution of off-balance sheet products in positive standing out.

Operating expenses increased, despite capacity adjustments and structural changes, with the closing of 2,280 branches during 2016, ending the year with a total stock of 28,959. On the negative side, an increase in costs associated with digital implementation and continued regulatory burden, among other aspects, weighed heavily.

Impairment losses on assets and other provisions did not burden the same figure as in 2015, so there was no further improvement in relation to the cost of the risk.

Despite this, the aggregate ROE of the sector experienced a decrease of 2.8%. In terms of solvency, the CET1 ratio of the Spanish banking system remained stable in the 2016 financial year, standing at 12.4% in June, but it is still far from the European average of 13.2%.



08

FINANCIAL STATEMENTS

# BALANCE SHEETS

## AS OF 31 December 2016 AND 2015

ASSETS	31/12/2016	31/12/2015
<b>CASH, CASH BALANCES IN CENTRAL BANKS AND OTHER DEMAND DEPOSITS</b>	<b>49,197</b>	<b>41,934</b>
<b>FINANCIAL ASSETS HELD FOR TRADING</b>	<b>23,001</b>	<b>30,441</b>
Derivatives	-	-
Equity instruments	1,000	283
Debt securities	22,001	30,158
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Clientele	-	-
<i>Pro-memoria: loaned or granted as guarantee with right of sale or pledge</i>	-	-
<b>FINANCIAL ASSETS DESIGNATED AT REASONABLE VALUE WITH CHANGES IN RESULTS</b>	<b>-</b>	<b>-</b>
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Clientele	-	-
<i>Pro-memoria: loaned or granted as guarantee with right of sale or pledge</i>	-	-
<b>FINANCIAL ASSETS AVAILABLE FOR SALE</b>	<b>641,271</b>	<b>552,219</b>
Equity instruments	12,909	13,036
Debt securities	628,362	539,183
<i>Pro-memoria: loaned or granted as guarantee with right of sale or pledge</i>	105,169	81,835
<b>LOANS AND RECEIVABLES</b>	<b>1,548,025</b>	<b>1,448,235</b>
Debt securities	11,604	12,614
Loans and advances	1,536,421	1,435,621
Central banks	-	-
Credit institutions	9,424	9,039
Clientele	1,526,997	1,426,582
<i>Pro-memoria: loaned or granted as guarantee with right of sale or pledge</i>	18,883	12,445
<b>HELD-TO-MATURITY INVESTMENTS</b>	<b>202,946</b>	<b>83,338</b>
<i>Pro-memoria: loaned or granted as guarantee with right of sale or pledge</i>	67,145	10,024
<b>DERIVATIVES - HEDGE ACCOUNTING</b>	<b>541</b>	<b>421</b>
<b>CHANGES IN REASONABLE VALUE OF ITEMS COVERED BY A PORTFOLIO WITH INTEREST RATE HEDGING</b>	<b>-</b>	<b>-</b>
<b>INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES</b>	<b>14,153</b>	<b>14,153</b>
Group entities	10,976	10,976
Multi-group entities	-	-
Associated entities	3,177	3,177
<b>TANGIBLE ASSETS</b>	<b>22,862</b>	<b>22,755</b>
Tangible fixed assets	22,862	22,755
Own use	19,302	19,483
Leased out under operating lease	3,560	3,272

ASSETS	31/12/2016	31/12/2015
Assigned to Social Projects	-	-
Property investments	-	-
<i>Of which: leased out under operating lease</i>	-	-
<i>Pro-memoria: acquired under financial leasing</i>	-	-
<b>INTANGIBLE ASSETS</b>	<b>13,141</b>	<b>11,521</b>
Goodwill	-	-
Other intangible assets	13,141	11,521
<b>TAX ASSETS</b>	<b>12,129</b>	<b>11,094</b>
Current tax assets	1,030	137
Deferred tax assets	11,099	10,957
<b>OTHER ASSETS</b>	<b>6,177</b>	<b>6,662</b>
Insurance contracts linked to pensions	-	-
Inventories	-	-
Remainder of other assets	6,177	6,662
<b>NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE</b>	<b>1,223</b>	<b>1,010</b>
<b>TOTAL ASSETS</b>	<b>2,534,666</b>	<b>2,223,783</b>
<b>PRO-MEMORIA: OFF-BALANCE-SHEET EXPOSURES</b>		
<b>GUARANTEES GRANTED</b>	<b>169,990</b>	<b>213,407</b>
<b>CONTINGENT COMMITMENTS GRANTED</b>	<b>144,122</b>	<b>142,761</b>

Thousands of euros

The figures for the 2015 financial year are presented for comparative purposes only.

# BALANCE SHEETS

## AS OF 31 December 2016 AND 2015

LIABILITIES AND EQUITY	31/12/2016	31/12/2015
<b>LIABILITIES</b>		
<b>FINANCIAL LIABILITIES HELD FOR TRADING</b>	<b>769</b>	<b>463</b>
Derivatives	769	463
Short positions	-	-
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Clientele	-	-
Issued debt securities	-	-
Other financial assets	-	-
<b>FINANCIAL LIABILITIES DESIGNATED AT REASONABLE VALUE WITH CHANGES IN RESULTS</b>	<b>-</b>	<b>-</b>
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Clientele	-	-
Issued debt securities	-	-
Other financial assets	-	-
<i>Pro-memoria: subordinated liabilities</i>	-	-
<b>FINANCIAL LIABILITIES AT DEPRECIATED COST</b>	<b>2,342,345</b>	<b>2,038,638</b>
Deposits	2,330,977	2,020,359
Central banks	70,000	68,045
Credit institutions	38,377	46,999
Clientele	2,222,600	1,905,315
Issued debt securities	-	-
Other financial assets	11,368	18,279
<i>Pro-memoria: subordinated liabilities</i>	-	-
<b>DERIVATIVES - HEDGE ACCOUNTING</b>	<b>-</b>	<b>-</b>
<b>CHANGES IN REASONABLE VALUE OF ITEMS COVERED BY A PORTFOLIO WITH INTEREST RATE HEDGING</b>	<b>-</b>	<b>-</b>
<b>PROVISIONS</b>	<b>3,026</b>	<b>340</b>
Pensions and other post-employment defined benefit obligations	-	-
Other long-term employee remuneration	-	-
Legal proceedings and litigation relating to outstanding tax payments	-	-
Commitments and guarantees granted	1,618	88
Other provisions	1,408	252
<b>TAX LIABILITIES</b>	<b>8,255</b>	<b>10,109</b>
Current tax liabilities	1	765
Deferred tax liabilities	8,254	9,344
<b>SHARE CAPITAL REFUNDABLE ON DEMAND</b>	<b>-</b>	<b>-</b>
<b>OTHER LIABILITIES</b>	<b>7,802</b>	<b>7,167</b>
<i>Of which: Social Projects fund</i>	66	95

LIABILITIES AND EQUITY	31/12/2016	31/12/2015
<b>LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>2,362,197</b>	<b>2,056,717</b>
<b>EQUITY</b>		
<b>OWN FUNDS</b>	<b>150,435</b>	<b>141,982</b>
Capital	70,803	69,362
Paid-up capital	70,803	69,362
Called unpaid capital	-	-
<i>Pro-memoria: uncalled capital</i>	-	-
Issue premium	-	-
Equity instruments issued other than capital	-	-
Equity component of compound financial instruments	-	-
Other issued equity instruments	-	-
Other equity items	-	-
Retained earnings	67,933	61,300
Revaluation reserves	1,612	1,637
Other reserves	-	-
(-) Own shares	-	-
Financial year earnings	10,087	9,683
(-) Interim dividend	-	-
<b>OTHER RETAINED COMPREHENSIVE EARNINGS</b>	<b>22,034</b>	<b>25,084</b>
Items not to be reclassified in results	81	-
Actuarial gains or (-) losses in defined benefit pension plans	81	-
Non-current assets and disposal groups classified as held for sale	-	-
Other valuation adjustments	-	-
Tangible assets	-	-
Intangible assets	-	-
Items that can be reclassified in results	21,953	25,084
Hedging of net investments in foreign operations [effective portion]	-	-
Currency conversion	(4)	8
Hedging derivatives. Cash flow hedges [effective portion]	-	-
Financial assets available for sale	21,957	25,076
Debt instruments	21,938	25,038
Equity instruments	19	38
Non-current assets and disposal groups classified as held for sale	-	-
<b>TOTAL EQUITY</b>	<b>172,469</b>	<b>167,066</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,534,666</b>	<b>2,223,783</b>

Thousands of euros

The figures for the 2015 financial year are presented for comparative purposes only.



# PROFIT AND LOSS ACCOUNTS FOR FINANCIAL YEARS 2016 AND 2015

	2016	2015
INTEREST INCOME	37,336	45,699
INTEREST EXPENSES	(5,782)	(11,130)
SHARE CAPITAL REFUNDABLE ON DEMAND EXPENSES	-	-
<b>INTEREST MARGIN</b>	<b>31,554</b>	<b>34,569</b>
DIVIDEND INCOME	252	157
FEE INCOME	22,144	21,984
FEE EXPENSES	(2,277)	(1,916)
FINANCIAL TRANSACTION RESULTS (NET)	2,472	7,545
Profits or (-) losses on derecognition in financial assets and liabilities not measured at fair value with changes in results (net)	5,261	6,176
Profits or (-) losses from financial assets and liabilities held for trading (net)	(2,653)	1,385
Profits or (-) losses from financial assets and liabilities designated at fair value with changes in results (net)	-	-
Profits or (-) losses resulting from hedge accounting (net)	(136)	(16)
EXCHANGE VARIATIONS [PROFIT OR (-) LOSS] (NET)	16	131
OTHER OPERATING INCOME	1,401	1,076
OTHER OPERATING EXPENSES	(3,738)	(3,692)
<i>Of which: compulsory provisions to Social Projects fund</i>	<i>(652)</i>	<i>(734)</i>
<b>GROSS MARGIN</b>	<b>51,824</b>	<b>59,854</b>
ADMINISTRATIVE EXPENSES	(41,274)	(38,388)
Personnel expenses	(25,108)	(22,980)
Other administration expenses	(16,166)	(15,408)
DEPRECIATION	(4,744)	(4,915)
PROVISIONS OR (-) REVERSAL OF PROVISIONS	(2,706)	(57)
IMPAIRMENT OF VALUE OR (-) REVERSAL OF IMPAIRMENT OF VALUE OF FINANCIAL ASSETS NOT MEASURED AT REASONABLE VALUE WITH CHANGES IN RESULTS	7,132	(5,715)
Financial assets valued at cost	-	-
Financial assets available for sale	25	(24)
Loans and receivables	7,083	(5,702)
Held-to-maturity investments	24	11

	2016	2015
<b>EARNINGS FROM OPERATING ACTIVITIES</b>	<b>10,232</b>	<b>10,779</b>
IMPAIRMENT OF VALUE OR (-) REVERSAL OF IMPAIRMENT OF VALUE OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES	-	-
IMPAIRMENT OF VALUE OR (-) REVERSAL OF IMPAIRMENT OF VALUE OF NON-FINANCIAL ASSETS	-	(3)
Tangible assets	-	(3)
Intangible assets	-	-
Others	-	-
PROFITS OR (-) LOSSES ON DERECOGNITION IN NON-FINANCIAL ASSETS AND HOLDINGS (NET)	1	-
NEGATIVE GOODWILL RECOGNISED IN RESULTS	-	-
PROFITS OR (-) LOSSES FROM NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE NOT ELIGIBLE AS DISCONTINUED ACTIVITIES	361	218
<b>PROFITS OR (-) LOSSES BEFORE TAX FROM CONTINUING ACTIVITIES</b>	<b>10,594</b>	<b>10,994</b>
EXPENSES OR () INCOME FROM TAX ON PROFIT FROM CONTINUING ACTIVITIES	(507)	(1,311)
<b>PROFITS OR (-) LOSSES AFTER TAX FROM CONTINUING ACTIVITIES</b>	<b>10,087</b>	<b>9,683</b>
PROFITS OR (-) LOSSES AFTER TAX FROM DISCONTINUED ACTIVITIES	-	-
<b>FINANCIAL YEAR EARNINGS</b>	<b>10,087</b>	<b>9,683</b>

# STATEMENTS OF INCOME AND EXPENSES RECOGNISED IN FINANCIAL YEARS 2016 AND 2015

	2016	2015
<b>FINANCIAL YEAR RESULT</b>	<b>10,087</b>	<b>9,683</b>
<b>OTHER COMPREHENSIVE EARNINGS</b>	<b>(3,050)</b>	<b>(8,619)</b>
<b>Items not to be reclassified in results</b>	<b>81</b>	<b>107</b>
Actuarial gains or (-) losses in defined benefit pension plans	110	144
Non-current assets and disposal groups for items held for sale	-	-
Other valuation adjustments	-	-
Corporation tax relating to items not to be reclassified	(29)	(37)
<b>Items that can be reclassified in results</b>	<b>(3,131)</b>	<b>(8,726)</b>
<b>Hedging of net investments in foreign operations [effective portion]</b>	<b>-</b>	<b>-</b>
Gains or (-) losses in value recorded in equity	-	-
Transferred to earnings	-	-
Other reclassifications	-	-
<b>Currency conversion</b>	<b>(12)</b>	<b>(6)</b>
Gains or (-) losses from currency exchange recorded in equity	(12)	(6)
Transferred to earnings	-	-
Other reclassifications	-	-
<b>Cash flow hedges [effective portion]</b>	<b>-</b>	<b>-</b>
Gains or (-) losses in value recorded in equity	-	-
Transferred to earnings	-	-

	2016	2015
Transferred to the initial carrying amount of the hedged items	-	-
Other reclassifications	-	-
<b>Financial assets available for sale</b>	<b>(4,166)</b>	<b>(11,665)</b>
Gains or (-) losses in value recorded in equity	922	(6,129)
Transferred to earnings	(5,088)	(5,536)
Other reclassifications	-	-
<b>Non-current assets and disposal groups for items held for sale</b>	<b>-</b>	<b>-</b>
Gains or (-) losses in value recorded in equity	-	-
Transferred to earnings	-	-
Other reclassifications	-	-
<b>Corporation tax relating to items that can be reclassified in results</b>	<b>1,047</b>	<b>2,945</b>
<b>TOTAL COMPREHENSIVE EARNINGS FOR THE FINANCIAL YEAR</b>	<b>7,037</b>	<b>1,064</b>

## TOTAL CHANGES IN EQUITY CONSOLIDATED AS OF 31 DECEMBER 2016 AND 2015

Sources of changes in equity	Capital	Issue premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Financial year earnings	(-) Interim dividend	Other retained comprehensive earnings	Total
<b>Opening balance as of 31 December 2014</b>	<b>67,498</b>	-	-	-	<b>55,827</b>	<b>1,663</b>	-	-	<b>8,721</b>	-	<b>33,810</b>	<b>167,519</b>
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
<b>Opening balance as of 01 January 2015</b>	<b>67,498</b>	-	-	-	<b>55,827</b>	<b>1,663</b>	-	-	<b>8,721</b>	-	<b>33,810</b>	<b>167,519</b>
<b>Total comprehensive earnings for the financial year</b>	-	-	-	-	<b>107</b>	-	-	-	<b>9,683</b>	-	<b>(8,726)</b>	<b>1,064</b>
<b>Other equity variations</b>	<b>1,864</b>	-	-	-	<b>5,366</b>	<b>(26)</b>	-	-	<b>(8,721)</b>	-	-	<b>(1,517)</b>
Issue of ordinary shares	1,864	-	-	-	(723)	-	-	-	-	-	-	1,141
Issue of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital decrease	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration to members)	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of own shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components	-	-	-	-	6,081	(26)	-	-	(6,055)	-	-	-
Increase or (-) decrease in equity resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Payments based on shares	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	8	-	-	-	(2,666)	-	-	(2,658)
<i>Of which: discretionary provision to social projects and funds</i>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Closing balance as of 31 December 2015</b>	<b>69,362</b>	-	-	-	<b>61,300</b>	<b>1,637</b>	-	-	<b>9,683</b>	-	<b>25,084</b>	<b>167,066</b>

Thousands of euros

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## TOTAL CHANGES IN EQUITY CONSOLIDATED AS OF 31 DECEMBER 2016 AND 2015

Sources of changes in equity	Capital	Issue premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Financial year earnings	(-) Interim dividend	Other retained comprehensive earnings	Total
<b>Opening balance as of 31 December 2015</b>	<b>69,362</b>	-	-	-	<b>61,300</b>	<b>1,637</b>	-	-	<b>9,683</b>	-	<b>25,084</b>	<b>167,066</b>
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
<b>Opening balance as of 01 January 2016</b>	<b>69,362</b>	-	-	-	<b>61,300</b>	<b>1,637</b>	-	-	<b>9,683</b>	-	<b>25,084</b>	<b>167,066</b>
<b>Total comprehensive earnings for the financial year</b>	-	-	-	-	-	-	-	-	<b>10,087</b>	-	<b>(3,050)</b>	<b>7,037</b>
<b>Other equity variations</b>	<b>1,441</b>	-	-	-	<b>6,633</b>	<b>(25)</b>	-	-	<b>(9,683)</b>	-	-	<b>(1,634)</b>
Issue of ordinary shares	1,441	-	-	-	-	-	-	-	-	-	-	1,441
Issue of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital decrease	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration to members)	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of own shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components	-	-	-	-	6,627	(25)	-	-	(6,602)	-	-	-
Increase or (-) decrease in equity resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Payments based on shares	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	6	-	-	-	(3,081)	-	-	(3,075)
<i>Of which: discretionary provision to social projects and funds</i>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Closing balance as of 31 December 2016</b>	<b>70,803</b>	-	-	-	<b>67,933</b>	<b>1,612</b>	-	-	<b>10,087</b>	-	<b>22,034</b>	<b>172,469</b>

Thousands of euros

The figures for the 2015 financial year are presented for comparative purposes only.

# STATEMENTS OF CASH FLOWS FOR FINANCIAL YEARS 2016 AND 2015

	2016	2015
<b>A) CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>141,858</b>	<b>16,847</b>
Financial year earnings	10,087	9,683
Adjustments to obtain cash flows from operating activities	(426)	13,045
Depreciation	4,744	4,915
Other adjustments	(5,170)	8,130
<b>Net increase/decrease in operating assets</b>	<b>(168,942)</b>	<b>241,746</b>
Financial assets held for trading	9,856	23,112
Financial liabilities designated at fair value with changes in results	-	-
Financial assets available for sale	(84,848)	261,717
Loans and receivables	(93,052)	(44,693)
Other operating assets	(898)	1,610
<b>Net increase/decrease in operating liabilities</b>	<b>303,230</b>	<b>(246,329)</b>
Financial liabilities held for trading	306	(2,788)
Financial liabilities designated at fair value with changes in results	-	-
Financial liabilities at depreciated cost	303,707	(244,304)
Other operating liabilities	(783)	763
<b>Corporation tax receipts/payments</b>	<b>(2,091)</b>	<b>(1,298)</b>
<b>B) CASH FLOWS FROM INVESTMENT ACTIVITIES</b>	<b>(126,824)</b>	<b>(19,814)</b>
<b>Payments</b>	<b>(128,336)</b>	<b>(21,746)</b>
Tangible assets	(1,611)	(3,220)
Intangible assets	(4,862)	(4,836)
Investments in subsidiaries, joint ventures and associated companies	-	-
Other business units	-	-
Non-current assets and liabilities classified as held for sale	-	(220)
Held-to-maturity investments	(119,584)	(9,572)
Other payments related to investment activities	(2,279)	(3,898)
<b>Receipts</b>	<b>1,512</b>	<b>1,932</b>
Tangible assets	-	-

	2016	2015
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associated companies	-	1
Other business units	-	-
Non-current assets and liabilities classified as held for sale	506	-
Held-to-maturity investments	-	-
Other receipts related to investment activities	1,006	1,931
<b>C) CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(1,640)</b>	<b>(1,525)</b>
<b>Payments</b>	<b>(3,081)</b>	<b>(2,666)</b>
Dividends	(3,081)	(2,666)
Subordinated liabilities	-	-
Depreciation of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	-	-
<b>Receipts</b>	<b>1,441</b>	<b>1,141</b>
Subordinated liabilities	-	-
Issue of own equity instruments	1,441	1,141
Disposal of own equity instruments	-	-
Other receipts related to financing activities	-	-
<b>D) EFFECT OF CHANGES IN EXCHANGE RATES</b>	<b>-</b>	<b>-</b>
<b>E) NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS (A + B + C + D)</b>	<b>13,394</b>	<b>(4,492)</b>
<b>F) CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>18,370</b>	<b>22,862</b>
<b>G) CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>31,764</b>	<b>18,370</b>
<b>COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>		
Cash	6,738	4,964
Balances equivalent to cash in central banks	25,026	13,406
Other financial assets	-	-
Less: bank overdrafts refundable on demand	-	-

Thousands of euros

The figures for the 2015 financial year are presented for comparative purposes only.



# CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2016 AND 2015

ASSETS	31/12/2016	31/12/2015
<b>CASH, CASH BALANCES IN CENTRAL BANKS AND OTHER DEMAND DEPOSITS</b>	<b>50,069</b>	<b>42,281</b>
<b>FINANCIAL ASSETS HELD FOR TRADING</b>	<b>23,001</b>	<b>30,454</b>
Derivatives	-	13
Equity instruments	1,000	283
Debt securities	22,001	30,158
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Clientele	-	-
<i>Pro-memoria: loaned or granted as guarantee with right of sale or pledge</i>	-	-
<b>FINANCIAL ASSETS DESIGNATED AT REASONABLE VALUE WITH CHANGES IN RESULTS</b>	<b>3,636</b>	<b>2,070</b>
Equity instruments	612	613
Debt securities	2,455	-
Loans and advances	569	1,457
Central banks	-	-
Credit institutions	569	1,457
Clientele	-	-
<i>Pro-memoria: loaned or granted as guarantee with right of sale or pledge</i>	-	-
<b>FINANCIAL ASSETS AVAILABLE FOR SALE</b>	<b>822,943</b>	<b>703,650</b>
Equity instruments	18,795	18,292
Debt securities	804,148	685,358
<i>Pro-memoria: loaned or granted as guarantee with right of sale or pledge</i>	105,169	81,835
<b>LOANS AND RECEIVABLES</b>	<b>1,549,841</b>	<b>1,450,334</b>
Debt securities	11,604	12,614
Loans and advances	1,538,237	1,437,720
Central banks	-	-
Credit institutions	9,424	9,039
Clientele	1,528,813	1,428,681
<i>Pro-memoria: loaned or granted as guarantee with right of sale or pledge</i>	18,883	12,445
<b>HELD-TO-MATURITY INVESTMENTS</b>	<b>202,946</b>	<b>83,338</b>
<i>Pro-memoria: loaned or granted as guarantee with right of sale or pledge</i>	67,145	10,024
<b>DERIVATIVES - HEDGE ACCOUNTING</b>	<b>541</b>	<b>421</b>

ASSETS	31/12/2016	31/12/2015
<b>CHANGES IN REASONABLE VALUE OF ITEMS COVERED BY A PORTFOLIO WITH INTEREST RATE HEDGING</b>	<b>-</b>	<b>-</b>
<b>INVESTMENTS IN JOINT VENTURES AND ASSOCIATED COMPANIES</b>	<b>3,663</b>	<b>3,846</b>
Multi-group entities	-	-
Associated entities	3,663	3,846
<b>ASSETS COVERED BY INSURANCE OR REINSURANCE POLICIES</b>	<b>470</b>	<b>336</b>
<b>TANGIBLE ASSETS</b>	<b>22,196</b>	<b>22,077</b>
Tangible fixed assets	22,196	22,077
Own use	20,605	20,113
Leased out under operating lease	1,591	1,964
Assigned to Social Projects	-	-
Property investments	-	-
<i>Of which: leased out under operating lease</i>	-	-
<i>Pro-memoria: acquired under financial leasing</i>	-	-
<b>INTANGIBLE ASSETS</b>	<b>13,988</b>	<b>12,136</b>
Goodwill	-	-
Other intangible assets	13,988	12,136
<b>TAX ASSETS</b>	<b>12,301</b>	<b>11,506</b>
Current tax assets	1,077	374
Deferred tax assets	11,224	11,132
<b>OTHER ASSETS</b>	<b>3,178</b>	<b>3,910</b>
Insurance contracts linked to pensions	-	-
Inventories	-	-
Remainder of other assets	3,178	3,910
<b>NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE</b>	<b>1,223</b>	<b>1,010</b>
<b>TOTAL ASSETS</b>	<b>2,709,996</b>	<b>2,367,369</b>
<b>PRO-MEMORIA: OFF-BALANCE-SHEET EXPOSURES</b>		
<b>GUARANTEES GRANTED</b>	<b>169,990</b>	<b>213,407</b>
<b>CONTINGENT COMMITMENTS GRANTED</b>	<b>144,122</b>	<b>142,761</b>

Thousands of euros

The figures for the 2015 financial year are presented for comparative purposes only.

# CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2016 AND 2015

LIABILITIES AND EQUITY	31/12/2016	31/12/2015
<b>LIABILITIES</b>		
<b>FINANCIAL LIABILITIES HELD FOR TRADING</b>	<b>769</b>	<b>463</b>
Derivatives	769	463
Short positions	-	-
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Clientele	-	-
Issued debt securities	-	-
Other financial assets	-	-
<b>FINANCIAL LIABILITIES DESIGNATED AT REASONABLE VALUE WITH CHANGES IN RESULTS</b>	<b>-</b>	<b>-</b>
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Clientele	-	-
Issued debt securities	-	-
Other financial assets	-	-
<i>Pro-memoria: subordinated liabilities</i>	-	-
<b>FINANCIAL LIABILITIES AT DEPRECIATED COST</b>	<b>2,323,278</b>	<b>2,001,489</b>
Deposits	2,311,098	1,982,606
Central banks	70,000	68,045
Credit institutions	38,377	46,999
Clientele	2,202,721	1,867,562
Issued debt securities	-	-
Other financial assets	12,180	18,883
<i>Pro-memoria: subordinated liabilities</i>	-	-
<b>DERIVATIVES - HEDGE ACCOUNTING</b>	<b>-</b>	<b>-</b>
<b>CHANGES IN REASONABLE VALUE OF ITEMS COVERED BY A PORTFOLIO WITH INTEREST RATE HEDGING</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES COVERED BY INSURANCE OR REINSURANCE POLICIES</b>	<b>169,149</b>	<b>157,468</b>
<b>PROVISIONS</b>	<b>3,032</b>	<b>341</b>
Pensions and other post-employment defined benefit obligations	-	-
Other long-term employee remuneration	-	-
Legal proceedings and litigation relating to outstanding tax payments	6	1
Commitments and guarantees granted	1,618	88
Other provisions	1,408	252
<b>TAX LIABILITIES</b>	<b>10,614</b>	<b>12,607</b>
Current tax liabilities	11	765
Deferred tax liabilities	10,603	11,842
<b>SHARE CAPITAL REFUNDABLE ON DEMAND</b>	<b>-</b>	<b>-</b>
<b>OTHER LIABILITIES</b>	<b>15,202</b>	<b>13,970</b>
<i>Of which: Social Projects fund</i>	5,484	5,065

LIABILITIES AND EQUITY	31/12/2016	31/12/2015
<b>LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>2,522,044</b>	<b>2,186,338</b>
<b>EQUITY</b>		
<b>OWN FUNDS</b>	<b>157,255</b>	<b>146,854</b>
Capital	70,803	69,362
Paid-up capital	70,803	69,362
Called unpaid capital	-	-
<i>Pro-memoria: uncalled capital</i>	-	-
Issue premium	-	-
Equity instruments issued other than capital	-	-
Equity component of compound financial instruments	-	-
Other issued equity instruments	-	-
Other equity items	-	-
Retained earnings	77,065	68,454
Revaluation reserves	1,612	1,637
Other reserves	5	5
Reserves or accumulated losses from investments in joint ventures and associated companies	5	5
Other	-	-
(-) Own shares	(4,256)	(4,256)
Result attributable to the owners of the Parent	12,026	11,652
(-) Interim dividend	-	-
<b>OTHER RETAINED COMPREHENSIVE EARNINGS</b>	<b>29,294</b>	<b>32,833</b>
Items not to be reclassified in results	81	-
Actuarial gains or (-) losses in defined benefit pension plans	81	-
Non-current assets and disposal groups classified as held for sale	-	-
Participation in other recognised income and expenses from investments in joint ventures and associated companies	-	-
Other valuation adjustments	-	-
Items that can be reclassified in results	29,213	32,833
Hedging of net investments in foreign operations [effective portion]	-	-
Currency conversion	(4)	8
Hedging derivatives, Cash flow hedges [effective portion]	-	-
Financial assets available for sale	28,830	32,303
Debt instruments	28,591	32,086
Equity instruments	239	217
Non-current assets and disposal groups classified as held for sale	-	-
Participation in other recognised income and expenses from investments in joint ventures and associated companies	387	522
<b>MINORITY INTERESTS (NON-CONTROLLING INTERESTS)</b>	<b>1,403</b>	<b>1,344</b>
Other retained comprehensive earnings	25	47
Other items	1,378	1,297
<b>TOTAL EQUITY</b>	<b>187,952</b>	<b>181,031</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,709,996</b>	<b>2,367,369</b>

Thousands of euros

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# CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR FINANCIAL YEARS 2016 AND 2015

	2016	2015
INTEREST INCOME	41,924	50,004
INTEREST EXPENSES	(5,543)	(10,493)
SHARE CAPITAL REFUNDABLE ON DEMAND EXPENSES	-	-
<b>INTEREST MARGIN</b>	<b>36,381</b>	<b>39,511</b>
DIVIDEND INCOME	118	83
RESULTS FROM ENTITIES VALUED USING THE EQUITY METHOD	94	143
FEE INCOME	22,602	22,856
FEE EXPENSES	(2,140)	(1,753)
FINANCIAL TRANSACTION RESULTS (NET)	2,361	7,741
PROFITS OR (-) LOSSES ON DERECOGNITION IN FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE WITH CHANGES IN RESULTS (NET)	5,077	6,259
PROFITS OR (-) LOSSES FROM FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING (NET)	(2,653)	1,385
PROFITS OR (-) LOSSES FROM FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE WITH CHANGES IN RESULTS (NET)	73	113
PROFITS OR (-) LOSSES RESULTING FROM HEDGE ACCOUNTING (NET)	(136)	(16)
EXCHANGE VARIATIONS [PROFIT OR (-) LOSS] (NET)	17	131
OTHER OPERATING INCOME	935	584
OTHER OPERATING EXPENSES	(3,758)	(3,712)
<i>Of which: compulsory provisions to Social Projects fund</i>	<i>(652)</i>	<i>(734)</i>
ASSET INCOME COVERED BY INSURANCE OR REINSURANCE POLICIES	45,001	52,031
LIABILITY EXPENSES COVERED BY INSURANCE OR REINSURANCE POLICIES	(44,336)	(52,025)
<b>GROSS MARGIN</b>	<b>57,275</b>	<b>65,590</b>
ADMINISTRATIVE EXPENSES	(44,172)	(41,337)
Personnel expenses	(27,102)	(25,026)
Other administration expenses	(17,070)	(16,311)
DEPRECIATION	(4,933)	(5,099)
PROVISIONS OR (-) REVERSAL OF PROVISIONS	(2,706)	(57)
IMPAIRMENT OF VALUE OR (-) REVERSAL OF IMPAIRMENT OF VALUE OF FINANCIAL ASSETS NOT MEASURED AT REASONABLE VALUE WITH CHANGES IN RESULTS	7,134	(5,763)
Financial assets valued at cost	-	-
Financial assets available for sale	27	(72)
Loans and receivables	7,083	(5,702)
Held-to-maturity investments	24	11
<b>EARNINGS FROM OPERATING ACTIVITIES</b>	<b>12,598</b>	<b>13,334</b>

	2016	2015
IMPAIRMENT OF VALUE OR (-) REVERSAL OF IMPAIRMENT OF VALUE OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES	-	-
IMPAIRMENT OF VALUE OR (-) REVERSAL OF IMPAIRMENT OF VALUE OF NON-FINANCIAL ASSETS	-	(3)
Tangible assets	-	(3)
Intangible assets	-	-
Others	-	-
PROFITS OR (-) LOSSES ON DERECOGNITION IN NON-FINANCIAL ASSETS AND AND HOLDINGS (NET)	1	-
<i>Of which: investments in subsidiaries, joint ventures and associated companies</i>	<i>-</i>	<i>-</i>
NEGATIVE GOODWILL RECOGNISED IN RESULTS	-	-
PROFITS OR (-) LOSSES FROM NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE NOT ELIGIBLE AS DISCONTINUED ACTIVITIES	361	218
<b>PROFITS OR (-) LOSSES BEFORE TAX FROM CONTINUING ACTIVITIES</b>	<b>12,960</b>	<b>13,549</b>
EXPENSES OR () INCOME FROM TAX ON PROFIT FROM CONTINUING ACTIVITIES	(939)	(1,912)
<b>PROFITS OR (-) LOSSES AFTER TAX FROM CONTINUING ACTIVITIES</b>	<b>12,021</b>	<b>11,637</b>
PROFITS OR (-) LOSSES AFTER TAX FROM DISCONTINUED ACTIVITIES	-	-
<b>FINANCIAL YEAR EARNINGS</b>	<b>12,021</b>	<b>11,637</b>
Attributable to minority interests (non-controlling interests)	(5)	(15)
Attributable to the owners of the Parent	12,026	11,652

Thousands of euros

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# CONSOLIDATED STATEMENTS OF INCOME AND EXPENSES RECOGNISED IN FINANCIAL YEARS 2016 AND 2015

	2016	2015
<b>FINANCIAL YEAR RESULT</b>	<b>12,021</b>	<b>11,637</b>
<b>OTHER COMPREHENSIVE EARNINGS</b>	<b>(3,561)</b>	<b>(9,703)</b>
<b>Items not to be reclassified in results</b>	<b>81</b>	<b>107</b>
Actuarial gains or (-) losses in defined benefit pension plans	110	144
Non-current assets and disposal groups of items held for sale	-	-
Participation in other recognised income and expenses from investments in joint ventures and associated companies	-	-
Other valuation adjustments	-	-
Corporation tax relating to items not to be reclassified	(29)	(37)
<b>Items that can be reclassified in results</b>	<b>(3,642)</b>	<b>(9,810)</b>
<b>Hedging of net investments in foreign operations [effective portion]</b>	<b>-</b>	<b>-</b>
Gains or (-) losses in value recorded in equity	-	-
Transferred to earnings	-	-
Other reclassifications	-	-
<b>Currency conversion</b>	<b>(12)</b>	<b>(6)</b>
Gains or (-) losses from currency exchange recorded in equity	(12)	(6)
Transferred to earnings	-	-
Other reclassifications	-	-
<b>Cash flow hedges [effective portion]</b>	<b>-</b>	<b>-</b>
Gains or (-) losses in value recorded in equity	-	-
Transferred to earnings	-	-
Transferred to the initial carrying amount of the hedged items	-	-
Other reclassifications	-	-
<b>Financial assets available for sale</b>	<b>(4,665)</b>	<b>(13,492)</b>
Gains or (-) losses in value recorded in equity	605	(7,939)
Transferred to earnings	(5,270)	(5,553)
Other reclassifications	-	-

	2016	2015
<b>Non-current assets and disposal groups for items held for sale</b>	<b>-</b>	<b>-</b>
Gains or (-) losses in value recorded in equity	-	-
Transferred to earnings	-	-
Other reclassifications	-	-
<b>Participation in other recognised income and expenses from investments in joint ventures and associated companies</b>	<b>(135)</b>	<b>(57)</b>
<b>Corporation tax relating to items that can be reclassified in results</b>	<b>1,170</b>	<b>3,745</b>
<b>TOTAL COMPREHENSIVE EARNINGS FOR THE FINANCIAL YEAR</b>	<b>8,460</b>	<b>1,934</b>
Attributable to minority interests (non-controlling interests)	(28)	(4)
Attributable to the owners of the Parent	8,488	1,938

# CONSOLIDATED FULL STATEMENTS OF CHANGES IN EQUITY AS OF 31 DECEMBER 2016 AND 2015

Sources of changes in equity	Capital	Issue premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Result for the year attributable to the owners of the Parent	(-) Interim dividend	Other retained comprehensive earnings	Minority interests		Total
												Other retained comprehensive earnings	Minority interests - Other items	
<b>Opening balance as of 31 December 2014</b>	<b>67,498</b>	-	-	-	<b>61,137</b>	<b>1,663</b>	<b>5</b>	<b>(4,211)</b>	<b>10,547</b>	-	<b>42,654</b>	<b>35</b>	<b>1,170</b>	<b>180,498</b>
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Opening balance as of 01 January 2015</b>	<b>67,498</b>	-	-	-	<b>61,137</b>	<b>1,663</b>	<b>5</b>	<b>(4,211)</b>	<b>10,547</b>	-	<b>42,654</b>	<b>35</b>	<b>1,170</b>	<b>180,498</b>
<b>Total comprehensive earnings for the financial year</b>	-	-	-	-	<b>106</b>	-	-	-	<b>11,652</b>	-	<b>(9,821)</b>	<b>12</b>	<b>(15)</b>	<b>1,934</b>
<b>Other equity variations</b>	<b>1,864</b>	-	-	-	<b>7,210</b>	<b>(26)</b>	-	<b>(45)</b>	<b>(10,547)</b>	-	-	-	<b>142</b>	<b>(1,402)</b>
Issue of ordinary shares	1,864	-	-	-	(723)	-	-	-	-	-	-	-	-	1,141
Issue of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital decrease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration to members)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components	-	-	-	-	7,907	(26)	-	-	(7,881)	-	-	-	142	142
Increase or (-) decrease in equity resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments based on shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	26	-	-	(45)	(2,666)	-	-	-	-	(2,685)
Of which: discretionary provision to social projects and funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Closing balance as of 31 December 2015</b>	<b>69,362</b>	-	-	-	<b>68,453</b>	<b>1,637</b>	<b>5</b>	<b>(4,256)</b>	<b>11,652</b>	-	<b>32,833</b>	<b>47</b>	<b>1,297</b>	<b>181,030</b>

Thousands of euros

The figures for the 2015 financial year are presented for comparative purposes only.



# CONSOLIDATED FULL STATEMENTS OF CHANGES IN EQUITY AS OF 31 DECEMBER 2016 AND 2015

Sources of changes in equity	Capital	Issue premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Result for the year attributable to the owners of the Parent	(-) Interim dividend	Other retained comprehensive earnings	Minority interests		Total
												Other retained comprehensive earnings	Minority interests - Other items	
<b>Opening balance as of 31 December 2015</b>	<b>69,362</b>	-	-	-	<b>68,453</b>	<b>1,637</b>	<b>5</b>	<b>(4,256)</b>	<b>11,652</b>	-	<b>32,833</b>	<b>47</b>	<b>1,297</b>	<b>181,030</b>
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Opening balance as of 01 January 2016</b>	<b>69,362</b>	-	-	-	<b>68,453</b>	<b>1,637</b>	<b>5</b>	<b>(4,256)</b>	<b>11,652</b>	-	<b>32,833</b>	<b>47</b>	<b>1,297</b>	<b>181,030</b>
<b>Total comprehensive earnings for the financial year</b>	-	-	-	-	-	-	-	-	<b>12,027</b>	-	<b>(3,539)</b>	<b>(22)</b>	<b>(6)</b>	<b>8,460</b>
<b>Other equity variations</b>	<b>1,441</b>	-	-	-	<b>8,612</b>	<b>(25)</b>	-	-	<b>(11,653)</b>	-	-	-	<b>87</b>	<b>(1,538)</b>
Issue of ordinary shares	1,441	-	-	-	-	-	-	-	-	-	-	-	-	1,441
Issue of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital decrease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration to members)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components	-	-	-	-	8,606	(25)	-	-	(8,572)	-	-	-	87	96
Increase or (-) decrease in equity resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments based on shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	6	-	-	-	(3,081)	-	-	-	-	(3,075)
Of which: discretionary provision to social projects and funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Closing balance as of 31 December 2016</b>	<b>70,803</b>	-	-	-	<b>77,065</b>	<b>1,612</b>	<b>5</b>	<b>(4,256)</b>	<b>12,026</b>	-	<b>29,294</b>	<b>25</b>	<b>1,378</b>	<b>187,952</b>

Thousands of euros

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# CONSOLIDATED STATEMENTS OF CASH FLOWS FOR FINANCIAL YEARS 2016 AND 2015

	2016	2015
<b>A) CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>141,243</b>	<b>14,537</b>
Financial year earnings	12,021	11,637
Adjustments to obtain cash flows from operating activities	10,258	(6,158)
Depreciation	4,933	5,099
Other adjustments	5,325	(11,257)
Net increase/decrease in operating assets	(199,982)	241,314
Financial assets held for trading	9,869	23,112
Financial liabilities designated at fair value with changes in results	(1,639)	(640)
Financial assets available for sale	(114,621)	267,130
Loans and receivables	(92,769)	(49,167)
Other operating assets	(822)	879
Net increase/decrease in operating liabilities	321,325	(230,820)
Financial liabilities held for trading	306	(2,789)
Financial liabilities designated at fair value with changes in results	-	-
Financial liabilities at depreciated cost	321,788	(226,039)
Other operating liabilities	(769)	(1,992)
Corporation tax receipts/payments	(2,379)	(1,436)
<b>B) CASH FLOWS FROM INVESTMENT ACTIVITIES</b>	<b>(126,209)</b>	<b>(17,504)</b>
Payments	(129,055)	(23,243)
Tangible assets	(1,631)	(3,224)
Intangible assets	(5,272)	(5,320)
Investments in joint ventures and associated companies	-	-
Subsidiary entities and other business units	-	-
Non-current assets and liabilities classified as held for sale	-	(220)
Held-to-maturity investments	(119,584)	(9,572)
Other payments related to investment activities	(2,568)	(4,907)

	2016	2015
<b>Receipts</b>	<b>2,846</b>	<b>5,739</b>
Tangible assets	-	-
Intangible assets	-	-
Investments in joint ventures and associated companies	376	-
Subsidiary entities and other business units	-	-
Non-current assets and liabilities classified as held for sale	506	-
Held-to-maturity investments	-	-
Other receipts related to investment activities	1,964	5,739
<b>C) CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(1,640)</b>	<b>(1,525)</b>
Payments	(3,081)	(2,666)
Dividends	(3,081)	(2,666)
Subordinated liabilities	-	-
Depreciation of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	-	-
Receipts	1,441	1,141
Subordinated liabilities	-	-
Issue of own equity instruments	1,441	1,141
Disposal of own equity instruments	-	-
Other receipts related to financing activities	-	-
<b>D) EFFECT OF CHANGES IN EXCHANGE RATES</b>	<b>-</b>	<b>-</b>
<b>E) NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS (A+B+C+D)</b>	<b>13,394</b>	<b>(4,492)</b>
<b>F) CASH AND EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>18,370</b>	<b>22,862</b>
<b>G) CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>31,764</b>	<b>18,370</b>
<b>COMPONENTS OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD</b>		
Of which: held by Group entities, but not made available by the Group	-	-
Cash	6,738	4,964
Balances equivalent to cash in central banks	25,026	13,406
Other financial assets	-	-
Less: bank overdrafts refundable on demand	-	-

Thousands of euros

The figures for the 2015 financial year are presented for comparative purposes only.



09

ANNUAL REPORT

# 09

## ANNUAL REPORT

In the 2016 financial year, in an environment characterised by a moderate revival of economic activity with interest rates at historical lows and strong regulatory and supervisory demands, the Group continued to improve its results, strengthening its solvency and increasing its turnover.

### 9.1

#### ACTIVITIES REPORT

##### 9.1.1 Assets

The [total assets](#) of the Group, as of 31 December 2016, stood at 2,709,996 thousands of euros, which represented an increase of 14.47% in relative terms and 342,627 thousands of euros in absolute terms compared to the end of the 2015 financial year. This increase is due, on the one hand, to an increase in debt securities of 231,686 thousands of euros (28.55% of the increase in assets) and, on the other hand, an increase in non-collateralised lending of 77,055 thousands of euros (22.49% of the increase in assets).

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

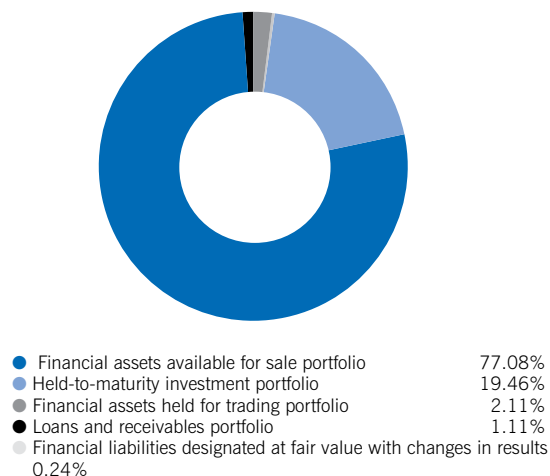


[Debt securities](#) increased from 811,468 thousands of euros to 1,043,154 thousands of euros as of 31 December 2015 and 2016, respectively, representing an increase of 231,686 thousands of euros (28.55% in relative terms).

Together, [debt securities](#), [other capital instruments](#) and [trading derivatives](#) increased from 830,669 thousands of euros to 1,063,561 thousands of euros as of 31 December 2015 and 2016, respectively, representing 39.25% of total assets.

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

## BREAKDOWN OF INVESTMENTS BY PORTFOLIO TYPE



- The [held-for-trading financial assets portfolio](#), which encompasses positions in securities and other financial instruments acquired for trading purposes, as of 31 December 2016, stood at 23,001 thousands of euros, of which 22,001 thousands of euros was public debt and corporate fixed income and 1,000 thousands of euros was investment funds and equities. As of 31 December 2015, this portfolio amounted to 30,454 thousands of euros, representing a decrease of 7,453 thousands of euros (-24.47% in relative terms).
- The [financial assets designated at fair value with changes in results portfolio](#), which exclusively includes investments related to life insurance products, when the investment risk is assumed by the policyholder, and has in its portfolio the insurance company of the Group, as of 31 December 2016, stood at 3,067 thousands of euros, of which 2,455 thousands of euros was public debt, corporate fixed income and securitisation bonds, and 612 thousands of euros was investment funds and equities. As of 31 December 2015, this portfolio amounted to 613 thousands of euros, representing a increase of 2,454 thousands of euros (400.33% in relative terms).

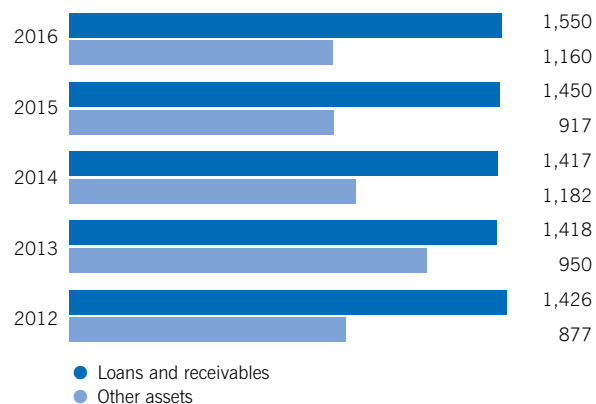
- The [held-to-maturity investment portfolio](#), whose basic purpose is the hedging of liabilities by matching asset and liability maturities, as of 31 December 2016, stood at 202,946 thousands of euros, compared to 83,338 thousands of euros at the end of the 2015 financial year, which represented an increase of 119,608 thousands of euros (143.52% in relative terms). The average purchase IRR of the assets included in this portfolio, as of 31 December 2016, was 0.62 %.
- The [available-for-sale financial assets portfolio](#) includes positions in financial instruments that do not qualify for classification in other financial investment portfolios. As of 31 December 2016, this portfolio stood at 822,943 thousands of euros, of which 804,148 thousands of euros was public debt, corporate fixed income and securitisation bonds and 18,795 thousands of euros was investment funds and equities. As of 31 December 2015, this portfolio amounted to 703,650 thousands of euros, representing an increase of 119,293 thousands of euros (16.95% in relative terms).
- If we focus on the debt securities that form part of the [loans and receivables portfolio](#), these, as of 31 December 2016, stood at 11,604 thousands of euros, corresponding in full to mortgage-backed securities in which the Entity participated as a transferor. As of 31 December 2015, this portfolio amounted to 12,614 thousands of euros, representing a decrease of 1,010 thousands of euros (-8.01% in relative terms), resulting from depreciation of the mortgage-backed securities that form part of this portfolio.

The [loan and receivables portfolio](#), at the end of the 2016 financial year, stood at 1,549,841 thousands of euros, representing year-on-year increases of 6.86% in relative terms and 99,507 thousands of euros in absolute terms, mainly as a result of an increase in lending to customers.



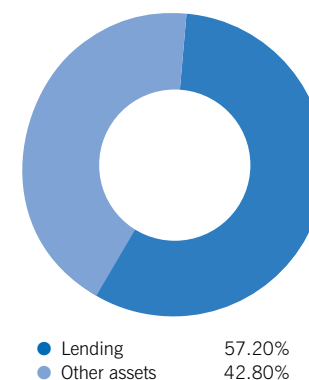
The evolution of the weight of loans and receivables compared to other assets in the last five financial years is shown below:

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



Loans and receivables, in the 2016 financial year, represented 57.19% of total assets.

#### LENDING COMPARED TO TOTAL ASSETS 2016 (%)



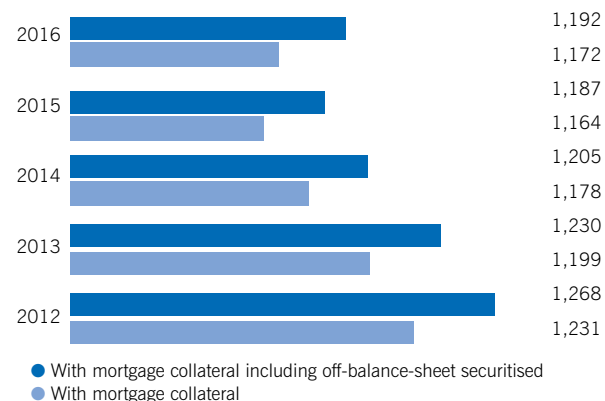
Lending to customers, which is the main component of the loans and receivables portfolio, increased by 7.01% in relative terms, compared to the previous financial year, reaching the figure of 1,528,813 thousands of euros at the end of the 2016 financial year.

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



Within lending to customers, lending with mortgage collateral amounted to 1,171,943 thousands of euros as of 31 December 2016, which represented 76.66% of total net lending to customers and 43.25% of total assets as of that date.

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

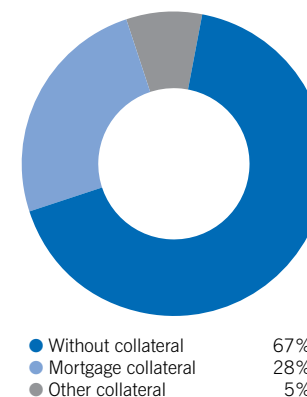


For its part, the number of lending transactions with mortgage collateral formalised in the 2016 financial year was 682, with the total amount of new financing standing at 118,339 thousands of euros, which represented a year-on-year increase of 30.21%.

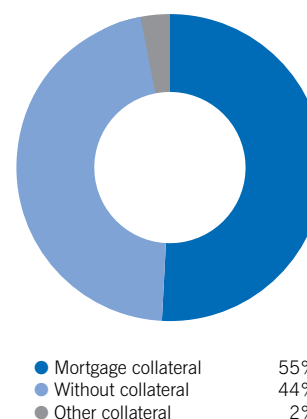
It should also be noted that lending [without mortgage collateral](#) increased by 41.54%, reaching 262,532 thousands of euros at year end, compared to 185,477 thousands of euros at the end of the previous year. For its part, the number of lending transactions without mortgage collateral formalised in the 2016 financial year was 1,616, with the total amount of new financing standing at 148,539 thousands of euros, which represented a year-on-year increase of 98.86%.

If we consider total financing granted, the number of transactions formalised in 2016 was 2,470 with a value of 277,566 thousands of euros, which represented a year-on-year increase of 56.38%. These figures are the result of the Entity's commitment to maintaining the flow of financing to members and the economy.

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

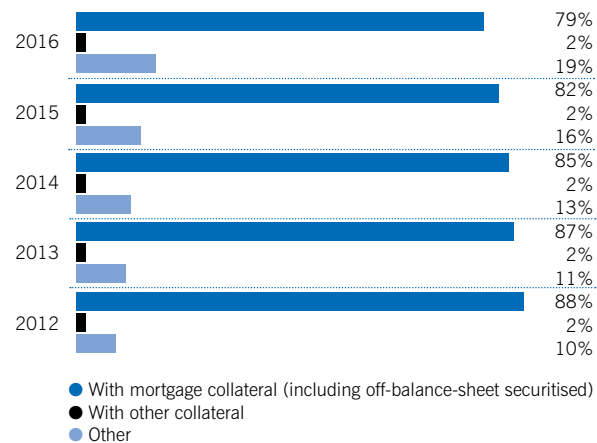


#### BREAKDOWN OF THE VALUE OF LOANS AND CREDIT TRANSACTIONS (%)



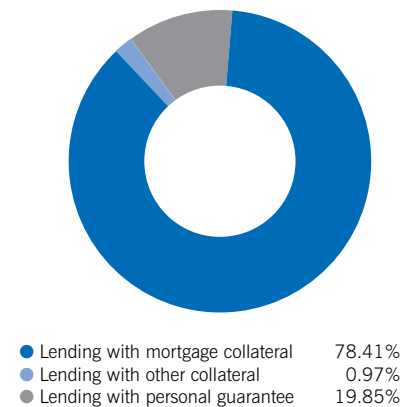
With reference to the evolution of the [breakdown of lending to customers](#), maintenance of good quality and support, to a large extent, by mainly mortgage collateral, is notable.

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



In the case of lending to customers classified as normal risk, assets with collateral amounted to 80.15% of the portfolio, 78.41% of which corresponded to assets with mortgage collateral.

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



67.22% of lending with mortgage collateral to households for the purchase of a home had a *Loan to Value* (LTV) lower than or equal to 80%, calculated on the basis of appraisals updated for the 2016 financial year.

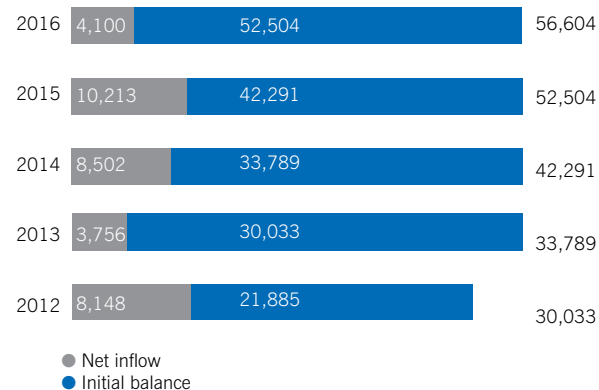
#### LTV BREAKDOWN OF MORTGAGE LENDING TO HOUSEHOLDS FOR HOME PURCHASES (%)



Regarding **refinancing and restructuring transactions**, at the end of the 2016 financial year, the figure stood at 34,902 thousands of euros compared to 37,935 thousands of euros achieved in the previous year, representing 2.28% of total lending to customers.

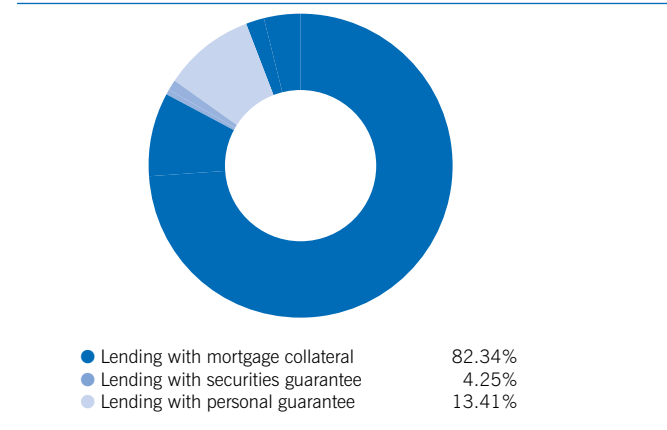
**Doubtful debt**, as of 31 December 2016, stood at 56,604 thousands of euros compared to 52,504 thousands of euros at the end of the previous year.

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



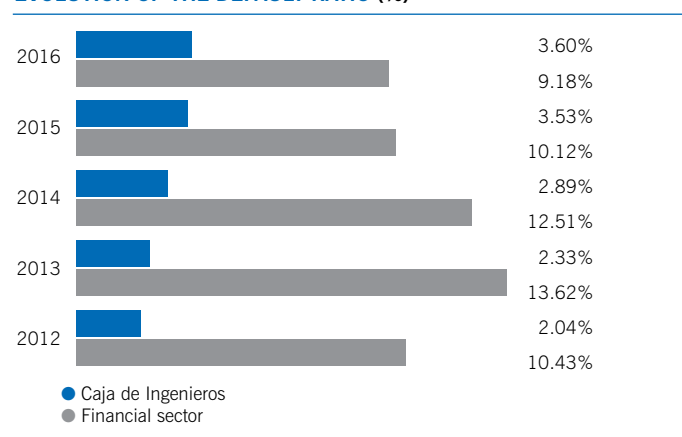
**Doubtful debt**, as of 31 December 2016, broke down as 46,600 thousands of euros corresponding to the loans and lending with mortgage collateral portfolio and 10,004 thousands of euros corresponding to other loans and lending, representing 82.34% and 17.66%, respectively.

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

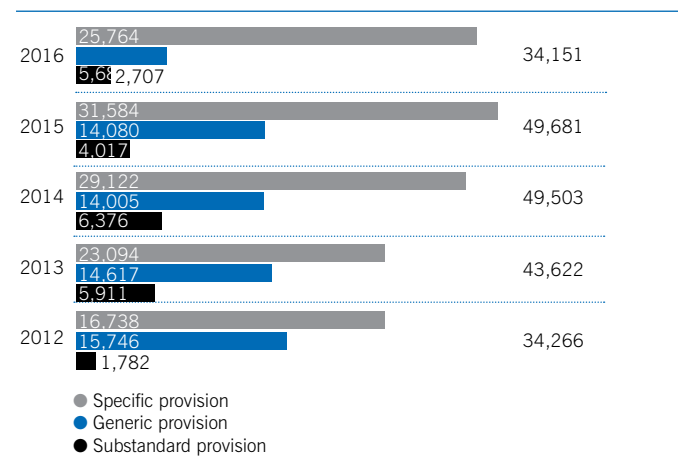


Of the doubtful assets, as of 31 December 2016, the amounts of 38,021 and 18,583 thousands of euros were respectively classified as non-performing and doubtful for reasons other than non-performance. The **default rate** for lending to customers, as of 31 December 2016, was 3.60%, compared to 3.53% as of 31 December 2015. Focusing on mortgages, the default rate, as of 31 December 2016, was 3.76%, compared to 3.57% at the end of the 2015 financial year. 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 2016 financial year, was 9.18%. This evolution is the result of rigorous application of a strict lending policy, quality of assets and guarantees.

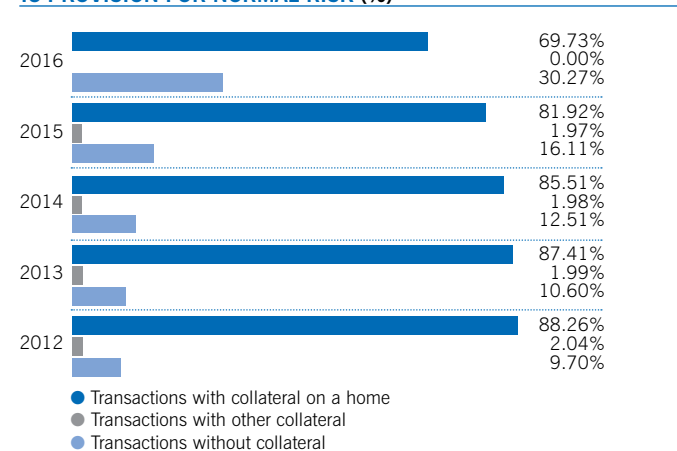
## EVOLUTION OF THE DEFAULT RATIO (%)



Lending provisions increased from 49,681 thousands of euros as of 31 December 2015 to 34,151 thousands of euros as of 31 December 2016, respectively, in accordance with criteria of maximum valuation prudence and the requirements demanded by the Bank of Spain.

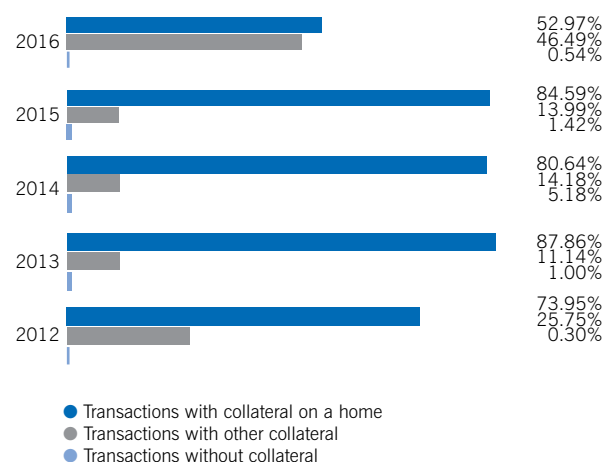
EVOLUTION OF THE BREAKDOWN OF PROVISIONS  
(IN THOUSANDS OF EUROS)

It should be noted that the 30.27%, 46.49% and 77.69% 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.

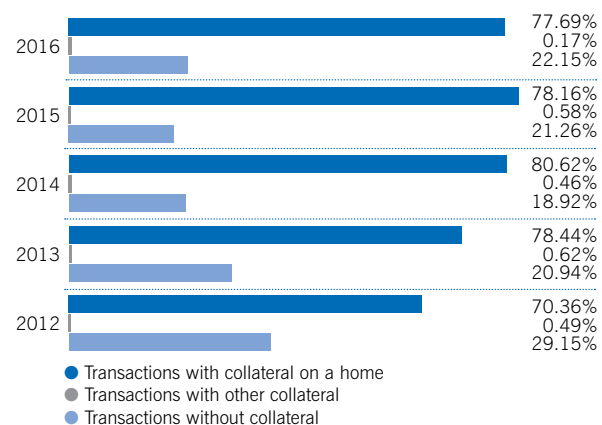
EVOLUTION OF THE BREAKDOWN OF THE GENERIC  
PROVISION FOR NORMAL RISK (%)



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

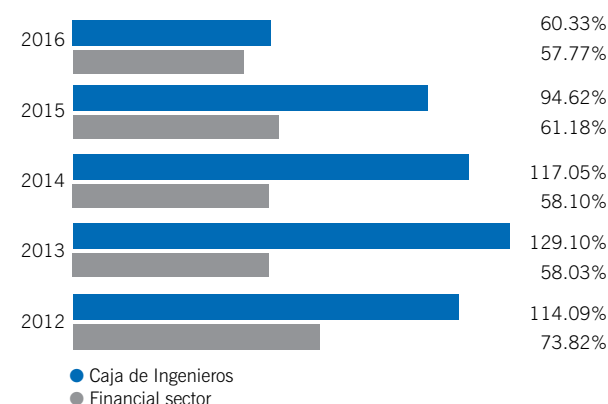


#### EVOLUTION OF THE BREAKDOWN OF THE SPECIFIC PROVISION (%)



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, translates into a **doubtful debt coverage rate** of 60.33% as of 31 December 2016, higher than the average for the financial sector, which, at the end of the 2016 financial year, stood at 57.77%.

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



**Foreclosed assets**, relating to assets received by the Entity in payment of debts, stood at 1,223 thousands of euros as of 31 December 2016, compared to 1,010 thousands of euros at the end of the previous year. In addition, the volume of this portfolio, as of 31 December 2016, represented 0.05% 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, four still remain in force with an amount pending depreciation, as of 31 December 2016, of 50,693 thousands of euros, compared to an initial amount of 281 million euros.

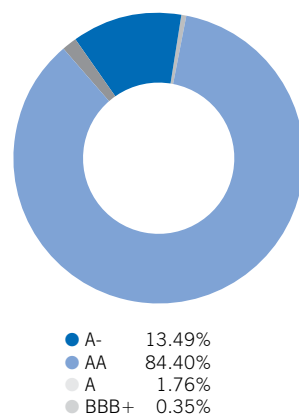
The Entity has also carried out, as a single assignor, two securitisation programmes for mortgage assets, the Caja Ingenieros TDA 1 Asset Securitisation Fund and the Caja

Ingenieros AyT Asset Securitisation Fund, for initial amounts of 270 million and 450 million euros, respectively. As of 31 December 2016, the amount pending depreciation,

added for both securitisations, is 484,254 thousands of euros.

Below is a breakdown by credit rating of the bonds issued<sup>1</sup> through the six asset securitisation programmes, which the Entity held in its portfolio, as of 31 December 2016, for a total amount of 526,672 thousands of euros.

#### BREAKDOWN BY CREDIT RATING



See section 9.3. *Risk management* in this report for an exhaustive analysis of the different risks assumed by the Group.

<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.

### 9.1.2. Liabilities and other managed funds

#### Turnover

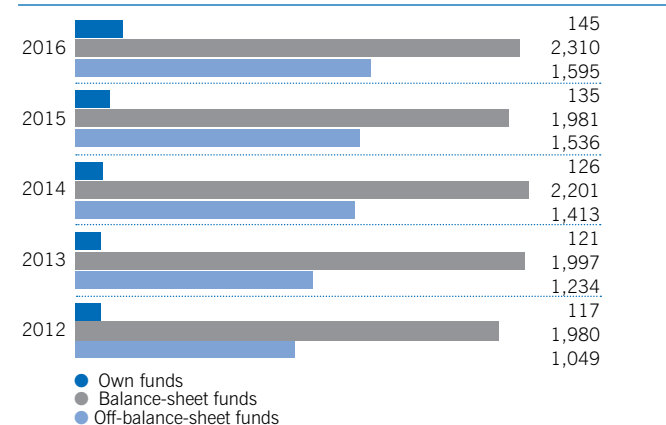
**Turnover**, defined at management level as the sum of managed third-party and gross lending portfolio funds, amounted to 5,456,385 thousands of euros as of 31 December 2016, compared to 4,982,277 thousands of euros as of 31 December 2015, which represented an increase of 474,108 thousands of euros (9.52% in relative terms).

#### Managed funds

**Managed third party and own funds** stood at 4,049,988 thousands of euros as of 31 December 2016, compared to 3,651,843 thousands of euros as of 31 December 2015, which represented an increase of 398,145 thousands of euros (10.90% in relative terms).

Detailed below is a breakdown of managed funds:

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



**Managed third party and own funds** stood at 3,709,753 thousands of euros as of 31 December 2016, compared to 3,372,895 thousands of euros as of 31 December 2015, which represented an increase of 336,858 thousands of euros (9.99% in relative terms). Specifically, balance sheet and off-balance-sheet managed funds increased by 15.14% and 3.82%, respectively.

	2016	2015	Change (ABS)	Change (%)
Own funds	145,229	135,202	10,027	7.42
Managed customer funds	3,709,753	3,372,894	336,859	9.99
Other funds managed by third parties	195,006	143,747	51,259	35.66
	<b>4,049,988</b>	<b>3,651,843</b>	<b>398,145</b>	<b>10.90</b>

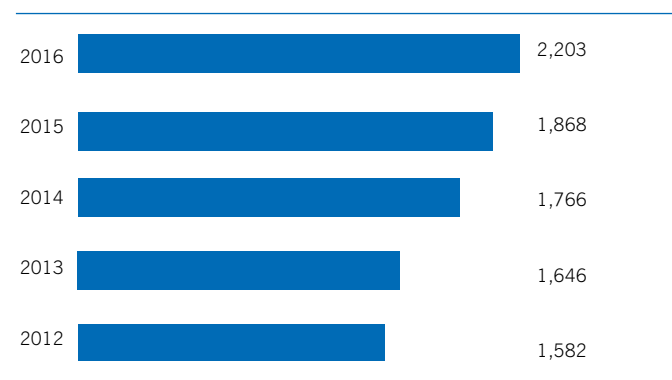
In thousands of euros

#### **Managed liability funds**

**Managed liability funds** stood at 2,310,152 thousands of euros as of 31 December 2016, compared to 1,980,698 thousands of euros as of 31 December 2015, which represented an increase of 329,454 thousands of euros (16.63% in relative terms). The main managed fund items under the heading of liability customer deposits are analysed below.

**Customer deposits** increased by 335,159 thousands of euros (17.95% in relative terms), as of 31 December 2016, to stand at 2,202,721 thousands of euros, compared to 1,867,562 thousands of euros at the end of the 2015 financial year.

#### **EVOLUTION OF CUSTOMER DEPOSITS (IN MILLIONS OF EUROS)**



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

	2016	2015	Change (ABS)	Change (%)
Demand deposits	1,233,239	936,899	296,340	31.63
Term deposits	786,208	829,521	-43,314	-5.22
Repos	181,696	98,405	83,291	84.64%
Valuation adjustments	1,578	2,737	-1,158	-42.32
<b>Total customer deposits</b>	<b>2,202,721</b>	<b>1,867,562</b>	<b>335,159</b>	<b>17.95</b>

Financing by the European Central Bank stood at 70 million euros as of 31 December 2016, compared to 68,045 thousands of euros at the end of the previous year, which represented an increase of 1,955 thousands of euros (2.87% in relative terms). This volume of financing came entirely from the liquidity obtained by the Entity through the ECB's long-term financing programme (TLTRO), with maturities in June, September and December 2020, for the amounts of 10, 30 and 30 million euros, respectively. This financing is passed on to members through lending.

Finally, it should be noted that the Group had a [structural liquidity ratio](#) of 139.63% at the end of the 2016 financial year, more than 51 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 9.3.7. *Risk management - Structural liquidity risk* in this report).

#### [Off-balance-sheet managed funds](#)

[Off-balance-sheet managed funds](#) stood at 1,594,607 thousands of euros as of 31 December 2016, compared to 1,535,943 thousands of euros as of 31 December 2015, which represented an increase of 3.82% in relative terms. The strategy adopted by the Group is to provide, in an extremely low interest rate financial environment, a wide range of investment services and insurance products to members whose tax treatment is more favourable than that of traditional savings products.

The assets of the [investment funds](#) managed by Caja de Ingenieros Gestión and/or marketed to third parties increased by 4.51% in relative terms, standing, as of 31 December 2016, at 782,408 thousands of euros. This data reflects a growing demand for this type of Group product given its good performance.

The final assets of the investment funds managed by Caja de Ingenieros Gestión, as of 31 December 2016, amounted to 590,056 thousands of euros, compared to 600,782 thousands of euros for the previous year, representing a decrease of 1.79% in relative terms.

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

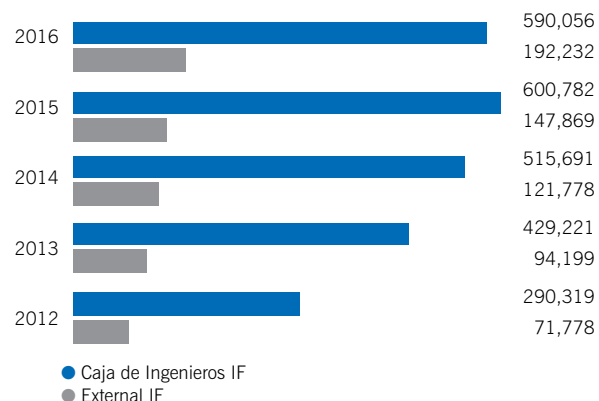
	2016	2015	Change
Equities IF	160,187	164,554	-2.65
Mixed equities IF	27,694	30,556	-9.37
Mixed fixed-income IF	115,772	115,262	0.44
Fixed-income IF	99,246	52,955	87.42
Guaranteed IF	151,250	214,763	-29.57
Other funds	35,907	22,692	58.24
<b>Total investment funds</b>	<b>590,056</b>	<b>600,782</b>	<b>-1.79</b>

In thousands of euros

The total number of managed investment fund accounts stood at 28,049 and 28,096 as of 31 December 2016 and 2015, respectively, representing a decrease of 0.17%.

The Group markets investment funds managed by its subsidiary Caja de Ingenieros Gestión and investment funds managed by entities external to the Group, the first representing 75.42% of total assets marketed as of 31 December 2016. Regarding third-party funds marketed, assets, at the close of 2016, stood at 192,352 thousands of euros. Below is a breakdown of the evolution of the investment funds marketed by the Group in the last five financial years:

#### EVOLUTION OF MARKETED INVESTMENT FUNDS (IN THOUSANDS OF EUROS)

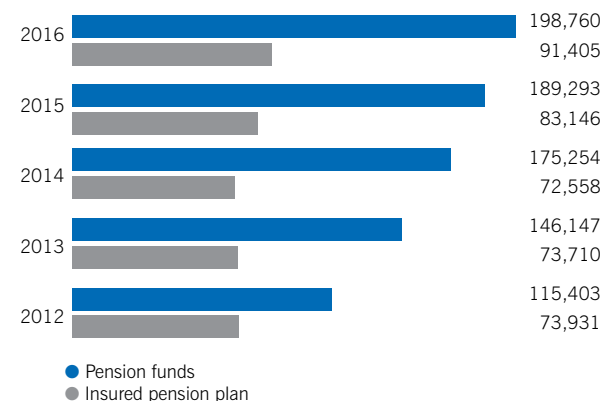


Caja de Ingenieros' [Discretionary Fund Portfolio Management Service](#) closed the year with managed assets of 143,554 thousands of euros, which represented an increase of 47.73% compared to the end of the previous year. This investment service offers an immediate and dynamic management response based on the succession of events occurring in the financial markets.

Supplementary social welfare, relating to the consolidated rights of [pension funds](#) and the mathematical provision of the [insured pension plan](#), and managed by Caja de Ingenieros Vida, as of 31 December 2016, stood at 290,165 thousands of euros, compared to 272,439 thousands of euros as of 31 December 2015, representing an increase of 6.51%.

Below is a breakdown of the evolution of the pension funds and social welfare plan in the last five financial years:

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



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

	2016	2015	Change
Equities PF	61,870	58,353	6.03
Mixed equities PF	55,679	54,517	2.13
Mixed fixed-income PF	54,805	51,910	5.58
Fixed-income PF	15,420	14,007	10.09
Guaranteed PF	5,263	5,335	-1.35
Employment	5,723	5,171	10.67
IPP	91,405	83,146	9.93
<b>Total</b>	<b>290,165</b>	<b>272,439</b>	<b>6.51</b>

In thousands of euros



In addition, the total number of managed investment fund accounts stood at 12,106 and 11,511 as of 31 December 2016 and 2015, respectively, representing a decrease of 5.17%.

For its part, the mathematical provision of the [individual systematic savings plan](#) managed by Caja de Ingenieros Vida increased by 11.85% from 41,926 to 46,895 thousands of euros as of 31 December 2015 and 2016, respectively. In addition, the total number of contracts increased by 3.63% from 5,709 to 5,916 as of 31 December 2015 and 2016, respectively.

Likewise, the mathematical provision of [annuity](#), an insurance modality that provides a monthly insured income for life, managed by Caja de Ingenieros Vida, amounted to 6,267 thousands of euros at the end of the 2016 financial year, which represented an increase of 8.88% in relative terms.

Law 35/2006 of 28 November concerning Personal Income Tax, regulates individual long-term savings insurance (SIALP) with tax advantages to encourage long-term saving by taxpayers. The Group makes available to members the possibility of acquiring this type of product through its [Plan Futuro 5, SIALP](#), which, at the end of the 2016 financial year had reached a mathematical provision of 16,990 thousands of euros, compared to 9,993 thousands of euros as of 31 December 2015, representing an increase of 70%.

Caja de Ingenieros Vida's [unit linked](#) products, in which the policyholder assumes the investment risk, amounted to a mathematical provision of 6,351 thousands of euros at the end of 2016, compared to 15,764 thousands of euros as of 31 December 2015, representing a decrease of 59.71%, mainly derived from the maturity of three issues.

The [fixed-income and equity securities](#) managed by the Entity stood at 110,485 thousands of euros and 342,511 thousands of euros, respectively, at the end of the 2016 financial year. Together, they increased by 6,113 thousands of euros compared to the previous year.

See section 6.2. *Members* in this report, where information on the products managed by the Group is expanded.

### 9.1.3. Own funds

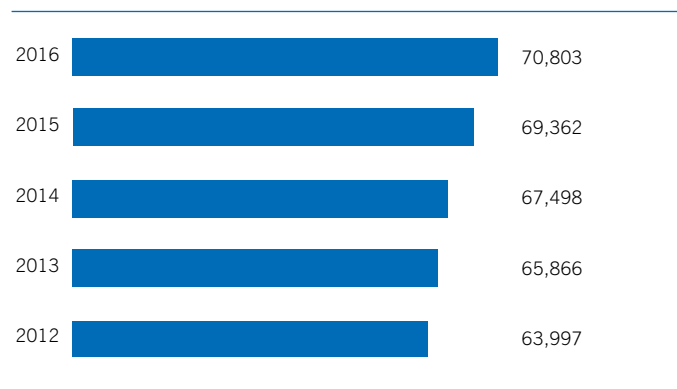
The Group's [own funds](#), as of 31 December 2016, stood at 157,255 thousands of euros, compared to 146,854 thousands of euros at the end of the previous year.

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

2016		157,255
2015		146,854
2014		136,639
2013		128,018
2012		125,005

[Share capital](#), as of 31 December 2016, stood at 70,803 thousands of euros, corresponding to 737,534 Caja de Ingenieros shares distributed among 22,630 members with contributions to the capital of Caja de Ingenieros.

## EVOLUTION OF CAPITAL (IN THOUSANDS OF EUROS)



As of 31 December 2016, Caja de Ingenieros Group's subsidiary entities held 44,333 cooperative shares for a par value of 4,256 thousands of euros, representing 6.01% 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 4.64% and 1.05%, respectively, as of 31 December 2016. 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 2016, was 2.50%.

The membership of Caja de Ingenieros Group increased by 1,554 in 2016, reaching a total of 142,597 as of 31 December 2016. This net increase includes losses of members resulting from the Entity not having member identification documents, which is a requirement for complying with Law 10/2010 concerning the prevention of money laundering and financing of terrorism and for which entities are given five years to adapt to the new legal requirements. Below is a breakdown of the evolution of membership in the last five financial years:

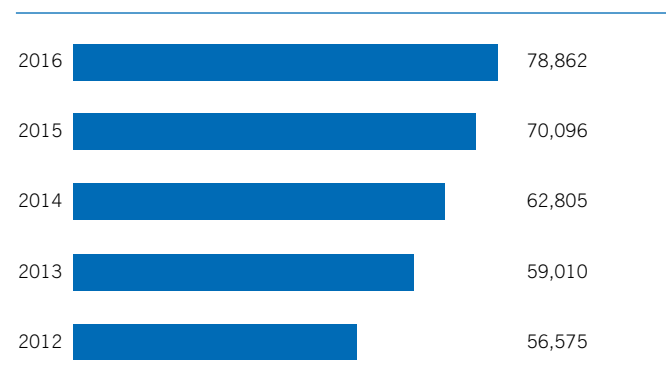
## EVOLUTION OF MEMBERSHIP



92.39% of the Group's members are natural persons and 7.61% are legal persons, with the number of members in terms of natural and legal persons standing at 131,752 and 10,845, respectively, as of 31 December 2016.

The Group's reserves, as of 31 December 2016, stood at 78,682 thousands of euros, a figure that represented an increase of 12.25% compared to the previous financial year. Reserves account for 50.03% of own funds.

## EVOLUTION OF RESERVES (IN THOUSANDS OF EUROS)



## 9.2

### RESULTS

#### 9.2.1. Consolidated result

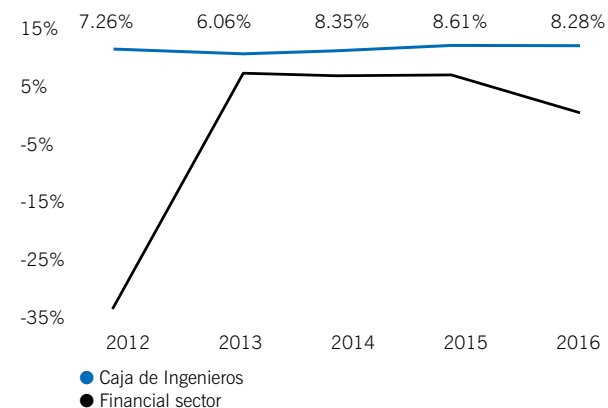
The Group's result for the financial year, as of 31 December 2016, stood at 12,021 thousands of euros, which represented an increase of 3.30% compared to the close of the 2015 financial year.

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



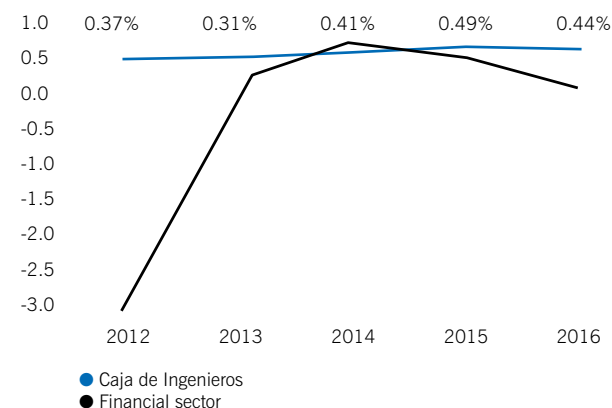
In terms of profitability, return on equity (ROE), at the end of the 2016 financial year, stood at 8.28%, compared to the 8.61% reached as of 31 December 2015. This slight decrease reflects the organic growth of own funds, which, in turn, enabled the Group to strengthen its financial position.

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



Return on assets (ROA) stood at 0.44% as of 31 December 2016, compared to 0.49% at the end of the previous year.

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



The **interest margin** in 2016 was 36,381 thousands of euros, down by 3,130 thousands of euros (-7.92% in relative terms) compared to 2015. This decrease was mainly due to a downward trend in interest rates, which led, on the one hand, to a reduction in income volume from a lower return on fixed-income positions and, on the other hand, a decline in the profitability of the lending portfolio. Against this backdrop of historically low interest rates, in which the 12-month Euribor recorded negative values (-0.082% in December 2016), the reduction in the cost of financing, as a result of a general fall in remuneration rates, which, at the same time, caused the channelling of some term deposits to demand deposits and other off-balance-sheet financial products with greater profitability, enabled the contraction of this margin to be moderated.

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

2016		36,381
2015		39,511
2014		40,420
2013		37,016
2012		43,871

The **net between fees received and fees paid** in 2016 was 20,462 thousands of euros as of 31 December 2016, compared to 21,103 thousands of euros recorded as of 31 December 2015, representing a decrease of 641 thousands of euros (-3.04% in relative terms).

Specifically, **fees received** reduced from 22,856 thousands of euros to 22,602 thousands of euros as of 31 December 2015 and 2016, respectively, representing a decrease of 1.11% (254 thousands of euros in absolute terms), mainly as a result of a decrease in the volume of fees received for the management of products relating to the asset management business, particularly investment funds, as a result of strong market instability. This decrease was offset in part by an increase in the volume of fees received for the management of insurance products, as a result of an increase in assets managed in supplementary social welfare products and the assumption by members of fees applied by other financial institutions without collaboration arrangements with Caja de Ingenieros to non-customers for the withdrawal of cash from their cashpoints, which, in turn, were offset by the fees paid by the Entity to such credit institutions for the same amount. For their part, the fees paid increased from 1,753 thousands of euros to 2,140 thousands of euros as of 31 December 2015 and 2016, respectively, representing an increase of 387 thousands of euros, mainly as a result of the previously mentioned fees paid by the Entity to other credit institutions.

The **financial transactions net result** amounted to 2,361 thousands of euros at the end of the 2016 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 and the result obtained in the acquisition of Visa Europe By Visa Inc. for 1,762 thousands of euros.

As a result of the above, the **gross margin** as of 31 December 2016 was 57,275 thousands of euros, compared to 65,590 thousands of euros in 2015, representing a decrease of 12.68%. This decrease was mainly offset by a net recovery of provisions for impairment of assets and provisions, compared to net provisions for the previous year, with the net recoveries for the year standing at 4,428 thousands of euros. This recovery is due to the Entity's prudent management of credit risk, which enabled it to keep its default rate at levels close to those of the previous year and, together with the application of new legislation, a significant volume of provisions. This release of provisions is mainly a result of the fact that a large part of the lending portfolio was covered by effective guarantees, the generic provisions being calculated in accordance with the revised Annex 11 based on the difference between risk and guarantee, compared to the gross risk calculation in accordance with the previous Annex 11.

The **operating activities result** decreased by 736 thousands of euros in absolute terms (-5.52% in relative terms) from 13,334 thousands of euros to 12,598 thousands of euros as of 31 December 2015 and 2016, respectively.

## EVOLUTION OF OPERATING RESULTS (IN THOUSANDS OF EUROS)

2016		12,598
2015		13,334
2014		12,912
2013		8,818
2012		9,750

*For comparative purposes, the operating activities result for the years prior to 2016, in accordance with the requirements established by the new FINREP statements, has been adjusted.*

It is worth mentioning, in addition, the increase in [administrative expenses](#) as a result of the combination of the organic growth process in which the Group is immersed, the significant cost of adaptation to the new regulatory and supervisory requirements of credit institutions and the digital transformation process being carried out by the Group in order to anticipate and respond to the growing needs of members in an increasingly changing environment. In relative terms, administrative expenses increased by 6.86% compared to the previous year and the [efficiency ratio](#) was 76.25% as of 31 December 2016 (compared to 62.33% for the previous year).

## 9.2.2. Individual results of Group entities

[Caja de Crédito de los Ingenieros, S. Coop. de Crédito](#) closed the 2016 financial year with a profit of 10,087 thousands of euros, which represented an increase of 4.17% compared to the 9,683 thousands of euros at the close of the 2015 financial year.

## EVOLUTION OF CAJA DE INGENIEROS' RESULTS (IN THOUSANDS OF EUROS)

2016		10,087
2015		9,683
2014		8,721
2013		5,902
2012		7,368



The evolution of the results of Caja de Ingenieros Group's [subsidiaries](#), as well as the associated entity, Norbolsa, an entity in which Caja de Ingenieros holds a 10% stake and which performs the functions of a business and settlement services and financial markets securities clearing bank:

Results of Group entities	2016	2015	Change (ABS)	Change (%)
Caja de Crédito de los Ingenieros, S. Coop. de Crédito	10,087	9,683	404	4.17%
Caja Ingenieros Gestión, SGIIC, SAU	241	341	-100	-29.33%
Caja Ingenieros Vida, Compañía de Seguros y Reaseguros, SAU	1,163	1,025	138	13.46%
Caja Ingenieros, Operador de Bancaseguros Vinculado, SLU	589	591	-2	-0.34
<b>Results of associated entities</b>				
Norbolsa, SV, SA	945	1,427	-482	-33.78%

In thousands of euros

### 9.2.3. 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 and attendance allowances provided for the performance of their duties.

Remuneration of members of the Governing Board and the Boards of Directors of the subsidiaries amounted to 264 thousands of euros, which represented an increase of 9.54% compared to the 241 thousands of euros of the previous 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.

### 9.2.4. Proposal for distribution of profits

Caja de Ingenieros' financial result as of 31 December 2016 amounted to 10,087 thousands of euros.

The proposed allocation of the profit for 2016, which the Governing Board of the Entity submits for approval to the General Assembly of members, is shown below:

Breakdown of results	2016
Interest payable to members for capital contributions	4,222
To obligatory reserves	1,303
To voluntary reserves	4,562
	<b>10,087</b>

In thousands of euros

The distribution of 4,222 thousands of euros as interest to be paid to members for contributions to capital involves the application of a nominal interest rate of 6.00%.

# 9.3

## RISK MANAGEMENT

### 9.3.1. 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 important challenges, particularly due to the negative interest rate situation and the weaknesses still present in economic activity, 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 the business model, credit and counterparty risk, structural interest rate and liquidity risk, market risk, operational risk, compliance and money laundering risks and reputational risk.

### 9.3.2. 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.

### 9.3.3. 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.

### 9.3.4. 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.

### 9.3.5. 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.

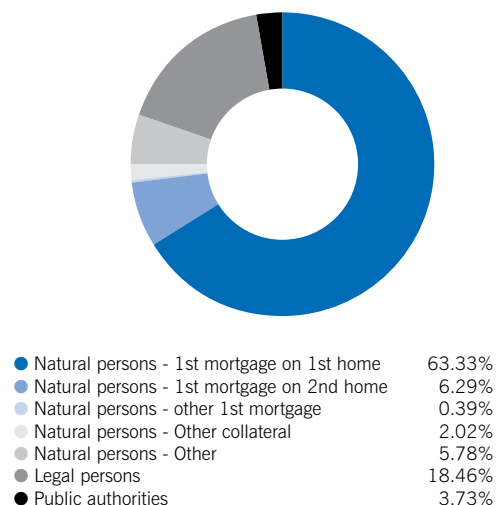
In accordance with current solvency regulations, credit risk is covered by the existence and control of certain own funds capable of absorbing the risks assumed, as well as the establishment of provisions intended to cover insolvencies. These hedges are separated into specific hedges for doubtful risks, 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 2016 financial year, 83.45% 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 2016, 682 transactions (560 in 2015) were granted for an average amount of 174 thousands of euros (159 thousands of euros in 2015) and an average *Loan to Value* of 62.34% (59.41% in 2015).

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

### BREAKDOWN OF LENDING TO CUSTOMERS BY TYPE OF GUARANTEE AND BORROWER (%)



As of 31 December 2016, Caja de Ingenieros' default rate stood at 3.60%, substantially below the default level of the sector, which stood at 9.18%.

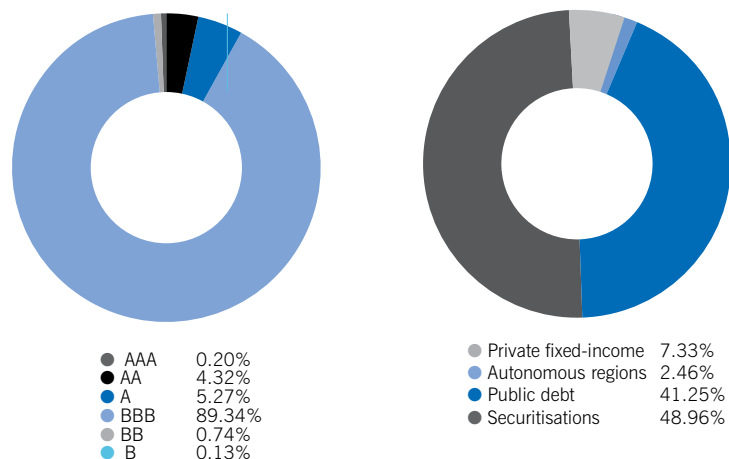
At the end of the 2016 financial year, the Group's total provisions for the coverage of customers' bad debts and debt securities was 34,559 thousands of euros, of which 2,669 thousands of euros related to generic normal risk provisions, 6,125 thousands of euros to provisions of normal risk in special surveillance and 25,765 thousands of euros to specific provisions for doubtful assets.

Total provisions related to the lending portfolio held as of 31 December 2016, which amounted to 34,151 thousands of euros, represented a coverage ratio of 60.33%, significantly higher than the sector average, which closed the year at 57.77%.

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 38.68% of the portfolio.

Below is a breakdown of the financial investment portfolio as of 31 December 2016 by rating level and type of debt:

#### BREAKDOWN OF THE INVESTMENT PORTFOLIO



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.

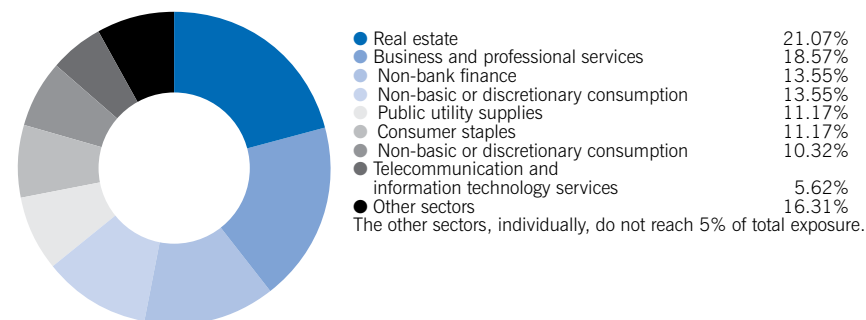
It should be noted that the counterparty risk assumed by the Group is highly insignificant in relation to total credit risk.

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, 21.07%; business and professional services, 18.57%; non-bank finance, 13.55%; non-basic or discretionary consumption, 11.17%; public utility supplies, 7.77%; consumer staples, 7.46%; processing and manufacturing industries, 6.89%; and telecommunication and information technology services, 5.62%.

#### SECTORAL CONCENTRATION (%)



The other sectors, individually, do not reach 5% of total exposure.

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 2016, there are no aggregate exposures that exceed 10% of the Group's own funds.

Regarding the Group's fixed-income securities portfolios, these are well diversified and are distributed among 67 issuing groups with good credit quality.

### 9.3.6. 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 2016, the sensitivity of the Entity's economic value to a parallel movement of the interest rate curve of -200 basis points was 0.09%, significantly lower than the regulatory limit of 20%<sup>1</sup>.

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 1.61% (7.99% 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.

### 9.3.7. 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.

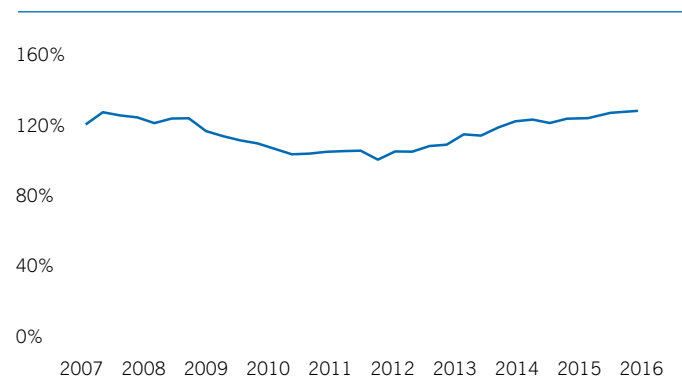
The Group's liquidity management policies are aimed at securing the funds required to meet business needs, diversifying funding sources and minimising their cost. The Group, through Caja de Ingenieros, monitors its liquidity position and financing strategies on an ongoing basis. In addition, it has a 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 2016, stood at 139.63%.

<sup>1</sup> As established by Circular 3/2008 of the Bank of Spain in Rule 106.3.a) and the Technical Applications of Regulatory Reporting which establish a floor of 0%.



## 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 2016, the LCR ratio was 224% and the NSFR ratio was estimated at 138%, when regulatory requirements were 70% for 2016 for LCR and 100% from 2018 in both cases.

### 9.3.8. 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	286.86	357.43	
Fixed income	517.48	630.44	84.46
Equities	336.80	418.77	202.40
Sum of VaR and Conditional VaR	854.28	1,040.22	
Diversification effect	567.42	691.79	

VaR calculated with a confidence interval of 99% and time horizon of one day. Annualised results.

### 9.3.9. 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.).

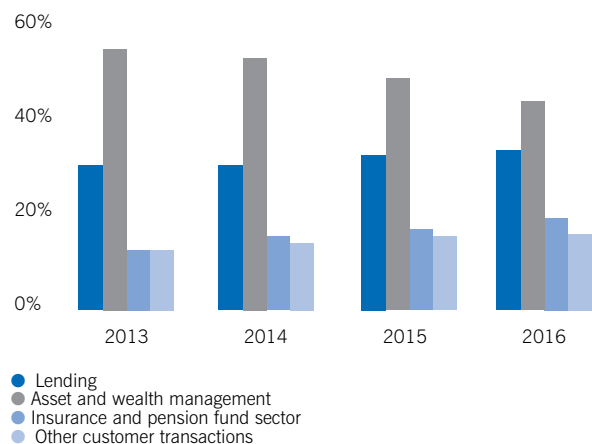
### 9.3.10. Business risk

**Business risk** is the possibility of incurring losses as a result of strategic decision making or the occurrence of hypothetical factors (internal or external) that adversely affect the normal development of the business and the ability of the Group to achieve its profitability objectives or solvency. For more than a decade, Caja de Ingenieros Group has been promoting diversification of its business, which is structured into four main areas of activity:

- Lending.
- Asset and wealth management activities.
- Insurance and pension funds.
- Other customer transactions.

These areas of activity are configured as elements of diversification within the range of services offered to members and the income related to them. Below is a breakdown of the evolution of the relative contribution of these business areas in recent years:

#### EVOLUTION OF THE RELATIVE CONTRIBUTION OF THE GROUP'S BUSINESS AREAS (%)



As can be seen in the graph, the relative contribution of the asset and wealth management businesses, whose profile is more stable in terms of cyclicity, continues to be high, albeit with a decrease in relative weight in the last financial year, mainly due to uncertainty in 2016 about the evolution of the markets. For their part, activities related to insurance and pension funds followed an upward trend for their specific weight. Finally, it is worth noting that the relative contribution of lending activities remained high.

Historically, Caja de Ingenieros Group has maintained a growth and profitability trend with stable and balanced increases in results and good quality assets, and default and coverage levels significantly higher than the sectoral average.

Caja de Ingenieros Group's magnitudes and ratios show solidity and recurrence in obtaining results, as well as competitive strength in its environment. Sustainability of profits, good ROE and ROA and appropriate default and coverage ratios are a clear example of Caja de Ingenieros Group's ability to meet the needs of asset impairment provisions without significantly affecting its solvency.

#### 9.3.11. 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.

### 9.3.12. Global Risk Management Area

**The Global Risk Management Area**, which comes under the auspices of the Office of the General Manager in the Entity's organisation chart, in accordance with the principle of independence of the risk function, is responsible for monitoring all of the risks inherent to the Group's business.

Its main functions are summarised as follows:

- To provide a comprehensive overview of the Group's risks.
- To ensure that the levels of risk assumed are appropriate to the Group's risk profile.
- To identify the risks to which the Group is exposed, including developing risks, risk concentrations and other situations that require examination.
- To assess the adequacy of own funds for the present and future requirements of different exposures.
- To verify compliance with the limits structure approved in risk policies.
- To define relevant risk policies for approval. To coordinate and promote the establishment of risk policies and procedures.
- To analyse scenarios and stress testing in order to assess the impact of future and alternative scenarios.
- To coordinate the Capital Self-Assessment Report and Information with Prudential Relevance.
- To plan and stress the consumption of capital and the liquidity position.

Those responsible for the risk function in the subsidiaries establish coordination and communication mechanisms with Global Risk Management to ensure that the function of guaranteeing the Group's solvency is effective, safeguarding the independence of the subsidiary and the responsibilities of its Board.

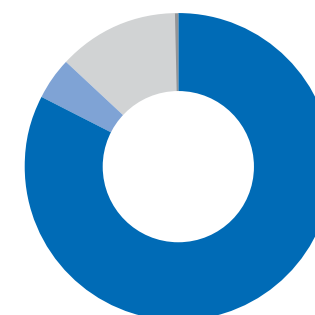
Caja de Ingenieros Group's risk control and management is enshrined in a body of documentation that defines policies, limits, methodologies and applicable regulations, enabling its profile and objectives to be conveyed to all parts of the organisation.

## 9.4

### 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**.

CAPITAL REQUIREMENTS BY TYPE OF RISK (%)



The total capital ratio, at the end of the 2016 financial year, was 15.64% (14.82% not including results attributable to reserves), substantially above the legally required minimum.

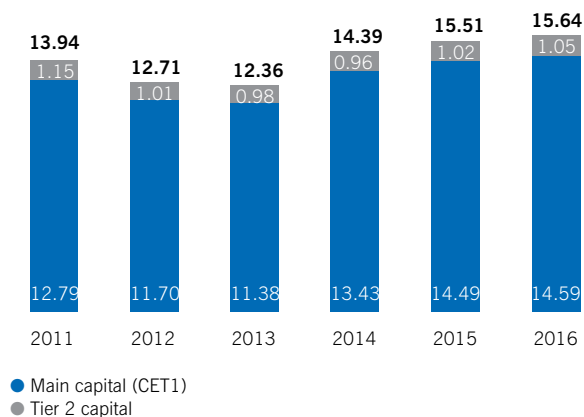
The total capital ratio measures the ratio of capital requirements to own funds and, in accordance with Regulation (EU) No. 575/2013 on prudential requirements of credit institutions and investment firms (CRR), Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV) and Pillar 1, it must be in excess of 8.625%.

In addition, at the end of the 2016 financial year, the consolidated total capital surplus stood at 67 million euros.

The Common Equity Tier (CET) of Caja de Ingenieros Group, with data at the end of the 2016 financial year, amounted to 139,800 thousands of euros, with a ratio of 14.59% (13.78%, 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 16.47%, including net retained earnings for the financial year, which represents a surplus of 90 million euros over the minimum regulatory fully-loaded CET1 of 7% for Pillar 1, which includes a 2.5% capital conservation buffer.

#### CONSOLIDATED SOLVENCY RATIO (%)





902 200 888



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