Cecabank, S.A.

Financial Statements and Directors' Report for the Year Ended 31 December 2018 together with the Auditors' Report

Annual Accounts 2018

Audit Report

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Entity in Spain (see Notes 1 and 42). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders of Cecabank, S.A.:

Report on the Financial Statements

Opinion

We have audited the financial statements of Cecabank, S.A. ("the Entity" or "the Bank"), which comprise the balance sheet as at 31 December 2018, the profit and loss statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of Cecabank, S.A. as at 31 December 2018, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Entity (identified in Note 1.2 to the financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Entity in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of financial instruments	
Description	**Procedures applied in the audit**
The criteria to be applied in measuring the Bank's financial instruments are determined by the classification of those instruments in the various different categories existing under the applicable regulations (see Notes 2.2 and 2.3 to the accompanying financial statements). As indicated in Note 21 to the accompanying financial statements, the Bank has certain financial instruments, classified as Level 2 in the fair value hierarchy because they do not have a price that is quoted in an active market, the fair value of which is therefore determined by means of valuation techniques that may take into consideration, among other factors, directly or indirectly observable market data, as well as the use of complex valuation methods. In addition, changes in the circumstances considered, market events or changes in accounting regulations or standards may have a significant impact on the measurement of these instruments. Accordingly, we considered the measurement of the financial instruments recognised at fair value that are classified by the Bank for measurement purposes as Level 2 in the fair value hierarchy to be a key matter in our audit, taking into consideration, in addition, the fact that these instruments represented a significant proportion of the Bank's total assets at 31 December 2018.	In order to address this key audit matter, our work included the performance of audit procedures to evaluate the operating effectiveness of the relevant controls established by the Bank in this area, as well as the conduct of substantive procedures, and we involved our internal specialists in the valuation of the aforementioned financial instruments. We performed, among others, the following audit procedures: (i) analysis of the methodology employed by the Bank to measure the financial instruments, verifying, on the basis of the nature of the instruments, the alignment of that methodology with accounting regulations, (ii) evaluation of the completeness of the data by obtaining confirmations, from a sample of third parties, of the position held by the Bank in those financial instruments, (iii) evaluation of the proper accounting and fair-value hierarchy classification of the financial instruments for measurement purposes, through a selective analysis of the characteristics of the financial instrument concerned, and (iv) replication of the calculations made by the Bank to verify the accuracy of the measurements. Also, we evaluated whether the disclosures included in the notes to the accompanying financial statements in connection with the financial instruments are in conformity with those required by the applicable regulatory financial reporting framework.

Third-party security custody and depository services	
Description	**Procedures applied in the audit**
As indicated in Note 13.1 to the accompanying financial statements, the Bank has acquired the rights arising from certain businesses involving custody and depository services for securities entrusted by third parties. At 31 December 2018, the financial instruments managed by the Bank as a result of custody and depository service contracts in force amounted to EUR 133,315 million, which, in accordance with the applicable regulations, were recognised off balance sheet by the Bank and are disclosed under "Transactions for the Account of Third Parties - Financial Instruments Entrusted by Third Parties" in Note 27.3 to the accompanying financial statements. In 2018 the income obtained by the Bank from the provision of these services was the most significant item of the fee and commission income recognised by it (see Note 31). In addition, since these services are not devoid of operational risk, the Bank's directors considered it necessary, upon commencement thereof, to set up a provision to cover this risk, which is recognised under "Provisions - Other Provisions" in the balance sheet in the accompanying financial statements (see Note 16.2 to the accompanying financial statements). As a result of the foregoing, the implications of the provision of these services for the Bank's financial statements and its effects thereon, taken as a whole, were considered to be a key matter in our audit.	In order to address this key audit matter, our work included the performance of audit procedures to evaluate the operating effectiveness of the relevant controls established by the Bank in this area, as well as the conduct of substantive procedures including, inter alia: i) analytical procedures to evaluate the reasonableness of the evolution of the income from these services, ii) tests of details, on a selective basis, to verify that the income from these services is consistent with the contractual terms and conditions established in the agreements in force and has been recognised in the appropriate accounting period, in accordance with the applicable recognition and measurement standards, and iii) substantive procedures, on a sampling basis, to obtain third-party confirmation of the income from these services earned in the year. With respect to the recognition of the debt securities and equity instruments entrusted by third parties, in addition to the performance of audit procedures to evaluate the operating effectiveness of the controls established in this area by the Bank, our substantive audit procedures included, among others: i) tests of details, on a selective basis, to confirm depositors' balances; and ii) substantive procedures, on a selective basis, to confirm all the subcustodians' positions at year-end. Our audit procedures in relation to the provision set up to cover the aforementioned risk of these services comprised, among others: (i) the analysis of the methodology employed by management in determining this provision, (ii) the review of the communications with the supervisor in this regard, (iii) the analysis of the reasonableness of the most significant judgements used by management, in order to evaluate the reasonableness of the estimates made, and (iv) the verification of the correct recognition of, and the changes in, the accounting provision recognised in 2018, evaluating the reasonableness thereof. Also, we evaluated whether the disclosures included in the notes to the accompanying financial statements in connection with the provision of these services are in conformity with those required by the applicable regulatory financial reporting framework.

Other Information: Directors' Report

The other information comprises only the directors' report for 2018, the preparation of which is the responsibility of the Entity's directors and which does not form part of the financial statements.

Our audit opinion on the financial statements does not cover the directors' report. Our responsibility relating to the information contained in the directors' report is defined in the audit regulations in force, which establish two distinct levels of responsibility in this regard:

a) A specific level that applies to the non-financial information statement, which consists solely of checking that the aforementioned information has been provided in the directors' report, or, as the case may be, that the directors' report contains the corresponding reference to the separate report on non-financial information as provided for in the applicable legislation and, if this is not the case, reporting this fact.

b) A general level applicable to the other information included in the directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the financial statements, based on the knowledge of the Entity obtained in the audit of those financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of this section of the directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have checked that the directors' report includes a reference to the fact that the information described in section a) above is presented in the consolidated directors' report of the Cecabank Group to which the Entity belongs, and that the other information in the directors' report is consistent with that contained in the financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors and of the Audit Committee for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the Entity's equity, financial position and results in accordance with the regulatory financial reporting framework applicable to the Entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the process involved in the preparation and presentation of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in Appendix I to this auditor's report. This description, which is on pages 6 and 7, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Entity's audit committee dated 19 February 2019.

Engagement Period

The Annual General Meeting held on 20 March 2018 appointed us as auditors for a period of one year from the year ended 31 December 2017.

Previously, we were designated pursuant to a resolution of the General Meeting for the period of one year and have been auditing the financial statements uninterruptedly since the year ended 31 December 2012.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Rafael Orti Baquerizo
Registered in ROAC under no. 15998

19 February 2019

Appendix I to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the use by the directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Entity's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Entity's audit committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

From the matters communicated with the Entity's audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Independent Financial Statements:

Balance Sheets

Income Statements

Statements of Recognised Income and Expense

Statements of Changes in Total Equity

Cash Flows Statements

Translation of Financial Statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 42). In the event of a discrepancy, the Spanish-language version prevails.

CECABANK, S.A.

BALANCE SHEETS AT 31 DECEMBER 2018 Y 2017*

(Thousands of Euros)

ASSETS	2018	2017
Cash, cash balances at central banks and other demand deposits (Note 5)	**3,267,077**	**2,656,780**
Financial assets held for trading (Note 6.1)	**1,920,383**	**2,144,770**
Derivatives	926,943	1,031,402
Equity instruments	240,744	287,482
Debt securities	752,696	825,886
Loans and advances	-	-
Memorandum item: loanedor advanced as collateral with right to sell or pledge	*96,475*	*37,971*
Non-trading financial assets mandatorily at fair value through profit or loss (Note 6.2)	**60,413**	**-**
Equity instruments	19,093	-
Debt securities	41,320	-
Loans and advances	-	-
Memorandum item: loanedor advanced as collateral with right to sell or pledge	*33*	-
Financial assets designated at fair value through profit or loss (Note 6.3)	**-**	**256,876**
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	256,876
Central Banks	-	-
Credit Institutions	-	256,876
Customers	-	-
Memorandum item: loanedor advanced as collateral with right to sell or pledge	-	*69,228*
Financial assets at fair value through other comprehensive income (Note 7)	**1,478,973**	**1,772,261**
Equity instruments	10,295	*38,716*
Debt securities	1,468,678	1,733,545
Loans and advances	-	-
Memorandum item: lent or delivered as guarantee with a right of sale or pledged	*137,278*	*19,862*
Financial Assets at amortised cost (Note 8)	**2,497,312**	**2,684,459**
Debt securities	21,503	21,731
Loans and advances	2,475,809	2,662,728
Central banks	-	-
Credit institutions	1,924,448	1,758,369
Customers	551,361	904,359
Memorandum item: lent or delivered as guarantee with a right of sale or pledged	*72,244*	*154,343*
Derivatives - hedge accouting (Note 9)	**17**	**1,723**
Fair value changes of hedged items in portfolio hedge of interest rate risk hedge of interest rate risk	**-**	**-**
Investment in subsidiaries, joint ventures and associates (Note 11)	**312**	**416**
Subsidiaries	312	416
Joint Ventures	-	-
Associates	-	-
Tangible assets (Note 12)	**51,175**	**52,413**
Property, plant and equipment	43,987	50,636
For own use	43,987	50,636
Leased out under an operating lease	-	-
Assignated to welfare projects	-	-
Investment property	7,188	1,777
Of which: assigned in operating lease	-	-
Memorandum item: acquired in finance lease	-	-
Intangible assets	**205,402**	**228,864**
Goodwill	-	-
Other intangible assets (Note 13)	205,402	228,864
Tax assets (Note 20)	**108,242**	**115,167**
Current tax assets	7,924	6,315
Deferred tax assets	100,318	108,852
Other assets (Note 14.1)	**56,731**	**42,944**
Insurance contracts linked to pensions	-	-
Inventories	-	-
Remainder of other assets	56,731	42,944
Non-current assets and disposable groups of items classified as held for sale (Note 10)	**3,791**	**3,787**
TOTAL ASSETS	**9,649,828**	**9,960,460**

LIABILITIES AND EQUITY	2018	2017
LIABILITIES		
Financial liabilities held for trading (Note 6.1)	**1,376,857**	**1,539,978**
Derivatives	967,023	1,146,041
Short positions	409,834	393,937
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss (Note 6.2)	**-**	**-**
Financial liabilities at amortised cost (Note 15)	**6,946,340**	**7,032,621**
Deposits	6,668,423	6,392,278
Central Banks	349,573	-
Credit Institutions	1,202,472	857,982
Customers	5,116,378	5,534,296
Debt securities issued	-	-
Other financial liabilities	277,917	640,343
Memorandum item: subordinated liabilities	-	-
Derivatives - hedge accounting (Note 9)	**6,898**	**1,412**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**-**	**-**
Liabilities under insurance and reinsurance contracts	**-**	**-**
Provisions (Note 16)	**122,595**	**151,843**
Pensions and other post-employment defined benefit obligations	-	-
Other long-term employee benefits	49,710	63,229
Pending legal issues and tax litigations	9,800	14,888
Commitments and guarantees given	274	206
Other provisions	62,811	73,520
Tax liabilities	**19,051**	**26,188**
Current liabilities	1,038	-
Deferred tax liabilities (Note 20)	18,013	26,188
Share capital payable on demand	**-**	**-**
Other liabilities (Note 14.2)	**104,917**	**150,739**
Liabilities included in disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**8,576,658**	**8,902,781**
EQUITY		
Shareholders equity	**1,063,402**	**1,012,621**
Share capital	112,257	112,257
Paid up capital (Note 18)	112,257	112,257
Unpaid capital which has been called up	-	-
Memorandum item: uncalled capital	-	-
Share premium (Note 18)	615,493	615,493
Equity instruments issued other than capital	-	-
Other equity items	-	-
Retained earnings (Note 19)	266,567	-
Revaluation reserves	-	-
Other reserves (Note 19)	5,591	211,653
(-) Treasury shares	-	-
Profit for the year (Note 3)	63,494	73,218
(-) Interim dividends	-	-
Accumulated other comprehensive income	**9,768**	**45,058**
Items that will not be reclassified to profit or loss	14,534	18,318
Actuarial gains or losses on defined benefit pensions plans (Note 17)	*11,451*	*11,019*
Non-current assets and disposal groups classified as held for sale	-	-
Changes of fair value of equity instruments measured at fair value through other comprehensive income	*3,083*	*7,299*
Inefficiency of fair value hedges of equity instruments measured at fair value through other comprehensive income	-	-
Changes of fair value of financial liabilities measured at fair value through profit or loss attributable to changes in credit risk	-	-
Items that may be reclassified to profit or loss	(4,766)	26,740
Hedge of net investments in foregn operations	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges	-	-
Changes of fair value of debt instruments measured at fair value through other comprehensive income (Note 17)	*(4,766)*	*26,740*
Hedging instruments (item not allocated)	-	-
Non-current assets and disposal groups classified as held for sale (Notes 10 and 17)	-	-
TOTAL EQUITY	**1,073,170**	**1,057,679**
TOTAL LIABILITIES AND EQUITY	**9,649,828**	**9,960,460**
MEMORANDUM ITEM		
Commitments from loans granted (Note 27.1)	**199,602**	**181,463**
Financial guarantees granted (Note 27.1)	**52**	**50**
Other obligations granted (Note 27.1)	**183,090**	**510,163**

(*) Only shown for comparative purposes. See Note 1.4.

The accompanying Notes 1 to 42 and Appendixes I and II, included in the Memorandum adjunted, are an integral part of the balance sheet at 31 December 2018.

Translation of Financial Statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 42). In the event of a discrepancy, the Spanish-language version prevails.

CECABANK, S.A.

INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017*

(Thousands of Euros)

	Income / (Expense)	
	2018	2017
Interest income (Note 28)	**90,055**	**89,641**
Financial assets at fair value through other comprehensive income	29,145	36,742
Financial assets at amortised cost	6,346	5,066
Other interest income	54,564	47,833
Interest expenses (Note 29)	**(83,747)**	**(71,242)**
Expenses on share capital repayable on demand	-	-
A) NET INTEREST INCOME	**6,308**	**18,399**
Dividend income (Note 30)	**15,199**	**39,474**
Fee and commission income (Note 31)	**134,359**	**136,286**
Fee and commission expenses (Note 32)	**(15,172)**	**(14,894)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net (Note 33)	**23,430**	**10,639**
Financial assets at amortised cost	3	3
Other financial assets and liabilities	23,427	10,636
Gains or losses on financial assets and liabilities held for trade, net (Note 33)	**(15,900)**	**(33,606)**
Reclassification of financial assets from fair value through other comprehensive income	-	-
Reclassification of financial assets from amortised cost	-	-
Other gains or losses	(15,900)	(33,606)
Gain or losses on non-trading financial assets mandatorily at fair value through profit or loss, net (Note 33)	**(4,477)**	-
Reclassification of financial assets from fair value through other comprehensive income	-	-
Reclassification of financial assets from amortised cost	-	-
Other gains or losses	(4,477)	-
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net (Note 33)	**(10)**	**(18)**
Gains or losses from hedge accounting, net (Note 33)	**(3,824)**	**(4,798)**
Exchange differences, net	**65,158**	**65,393**
Other operating income (Note 34)	**48,267**	**50,758**
Other operating expenses (Note 37)	**(3,986)**	**(4,432)**
B) GROSS INCOME	**249,352**	**263,201**
Administrative expenses	**(127,029)**	**(130,636)**
Staff costs (Note 35)	(51,042)	(51,193)
Other administrative expenses (Note 36)	(75,987)	(79,443)
Amortisation (Note 39)	**(46,204)**	**(56,834)**
Provisions and reserval of provisions (Note 16)	**12,125**	**16,909**
Impairment or reversal of impairment and gains or losses due to changes in cash flows of financial assets not measured at fair value through profit or loss or net gains or losses (-) due to change	**497**	**7,132**
Financial assets at fair value through other comprehensive income	309	302
Financial Assets at amortised cost	188	6,830
Impairment loss or reversal of impairment loss of investments in subsidiaries, joint ventures or associates	-	-
Impairment loss or reversal of impairment loss of non financial assets	-	-
Gains or losses on derecognition of non-financial assets and investments, net (Notes 11 an	**10**	**2**
Negative goodwill recognised in profit or loss	-	-
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (Note 10)	**(10)**	**8,382**
C) PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**88,741**	**108,156**
Tax expense or income related to profit or loss from continuing operations (Note 20.2)	**(25,247)**	**(34,938)**
D) PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	**63,494**	**73,218**
Profit or loss after tax from discontinued operations	-	-
E) PROFIT FOR THE YEAR	**63,494**	**73,218**

(*) Only shown for comparative purposes. See Note 1.4.

The accompanying Notes 1 to 42 and Appendixes I and II, included in the Memorandum adjunted, are an integral part of the income statement for the year ended 31 December 2018.

Translation of Financial Statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 42). In the event of a discrepancy, the Spanish-language version prevails.

CECABANK, S.A.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017*

I. STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017*

(Thousands of Euros)

	2018	2017 (*)
PROFIT FOR THE YEAR	**63,494**	**73,218**
OTHER COMPREHENSIVE INCOME	**(29,625)**	**(15,760)**
Items that will not be reclassified to profit or loss	**1,823**	**1,557**
Actuarial gains or losses on defined benefit pension plans (Notes 20 and 35)	617	2,224
Non-current assets and disposal groups held for sale	-	-
Changes of fair value of equity instruments measured at fair value through other comprehensive income	1,987	-
Gains or losses from hedge accounting of equity instruments measured at fair value through other comprehensive income, net	-	-
Tax on gains related to the items that will not be reclassified	(781)	(667)
Items that may be reclassified to profit or loss	**(31,448)**	**(17,317)**
Hedge of net investments in foreign operations	-	-
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	-	-
Translation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges	-	-
Valuation gains or losses taken to equity	-	-
Transferred to profit or loss	-	-
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Debt instruments at fair value through other comprehensive income	(44,926)	(14,390)
Valuation gains or losses taken to equity	(21,499)	(3,754)
Transferred to profit or loss	(23,427)	(10,636)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale (Note 10)	-	(10,349)
Valuation gains or losses taken to equity	-	(1,967)
Transferred to profit or loss	-	(8,382)
Other reclassifications	-	-
Tax on gains related to the items that may be reclassified in profit or loss	13,478	7,422
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**33,869**	**57,458**

(*) Only shown for comparative purposes. See Note 1.4.
for the year ended 31 December 2018.

Translation of Financial Statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 42). In the event of a discrepancy, the Spanish-language version prevails.

CECABANK, S.A.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017*

II. STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017*
(Thousands of Euros)

2018:

	SHAREHOLDERS' EQUITY											
Sources of equity changes	Share capital (Note 18)	Share premium (Note 18)	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves (Note 19)	(-) Treasury shares	Profit for the year (Note 3)	(-) Interim dividends	Accumulated other comprehensive income (Note 17)	Total equity
Opening balance (before restatement) at 1 January 2018	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**211,653**	**-**	**73,218**	**-**	**45,058**	**1,057,679**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	5,536	-	-	-	(5,665)	(129)
Opening balance at 1 January 2018	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**217,189**	**-**	**73,218**	**-**	**39,393**	**1,057,550**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**63,494**	**-**	**(29,625)**	**33,869**
Other changes in equity	**-**	**-**	**-**	**-**	**266,567**	**-**	**(211,598)**	**-**	**(73,218)**	**-**	**-**	**(18,249)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members) (Note 3)	-	-	-	-	-	-	-	-	(18,304)	-	-	(18,304)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	266,567	-	(211,653)	-	(54,914)	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	55	-	-	-	-	55
Closing balance at 31 December 2018	**112,257**	**615,493**	**-**	**-**	**266,567**	**-**	**5,591**	**-**	**63,494**	**-**	**9,768**	**1,073,170**

2017 (*):

	SHAREHOLDERS' EQUITY											
Sources of equity changes	Share capital (Note 18)	Share premium (Note 18)	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves (Note 19)	(-) Treasury shares	Profit for the year (Note 3)	(-) Interim dividends	Accumulated other comprehensive income (Note 17)	Total equity
Opening balance (before restatement) at 1 January 2017	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**154,393**	**-**	**76,347**	**-**	**60,818**	**1,019,308**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2017	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**154,393**	**-**	**76,347**	**-**	**60,818**	**1,019,308**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**73,218**	**-**	**(15,760)**	**57,458**
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**-**	**57,260**	**-**	**(76,347)**	**-**	**-**	**(19,087)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members) (Note 3)	-	-	-	-	-	-	-	-	(19,087)	-	-	(19,087)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	-	57,260	-	(57,260)	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2017	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**211,653**	**-**	**73,218**	**-**	**45,058**	**1,057,679**

(*) Only shown for comparative purposes. See Note 1.4.

The accompanying Notes 1 to 42 and Appendixes I and II, included in the Memorandum adjunted, are an integral part of the statement of changes in equity for the year ended 31 December 2018.

Translation of Financial Statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 42). In the event of a discrepancy, the Spanish-language version prevails.

CECABANK, S.A.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017*

(Thousands of Euros)

	Proceeds / (Payments)	
	2018	2017 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**650,086**	**711,659**
Profit for the year	**63,494**	**73,218**
Adjustments made to obtain the cash flows from operating activities	**101,642**	**113,854**
Amortisation	46,204	56,834
Other adjustments	55,438	57,020
Net (increase)/decrease in operating assets	**836,648**	**755,880**
Financial assets held for trading	215,535	(124,868)
Non trading financial Assets mandatory measured at fair value through profit and loss	31,355	-
Financial assets designated at fair value through profit or loss	256,866	809,542
Financial assets at fair value through other comprehensive income	160,483	1,521,149
Financial assets at amortised cost	186,575	(1,462,169)
Other operating assets	(14,166)	12,226
Net increase/(decrease) in operating liabilities	**(338,667)**	**(195,557)**
Financial liabilities held for trading	(163,121)	(239,822)
Financial liabilities designated at fair value through profit or loss	-	(185,902)
Financial liabilities at amortised cost	(86,281)	302,578
Other operating liabilities	(89,265)	(72,411)
Income tax recovered/(paid)	**(13,031)**	**(35,736)**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**(21,514)**	**(225,474)**
Payments:	**(21,514)**	**(225,474)**
Tangible assets	(1,827)	(2,225)
Intangible assets	(19,687)	(223,249)
Investments in subsidiaries, joint ventures and associates	-	-
Other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Other payments related to investing activities	-	-
Proceeds:	-	-
Tangible assets	-	-
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associates	-	-
Other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Other proceeds related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(18,304)**	**(19,087)**
Payments:	**(18,304)**	**(19,087)**
Dividends	(18,304)	(19,087)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	-	-
Proceeds:	-	-
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	-	-
D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**-**	**-**
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**610,268**	**467,098**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,656,809**	**2,189,682**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 5)	**3,267,077**	**2,656,780**
MEMORANDUM ITEM		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 5)		
Cash	119,015	94,860
Cash balances at central banks	3,046,432	2,468,451
Other demand deposits	101,630	93,469
Less: Bank overdrafts refundable on demand	-	-

(*) Only shown for comparative purposes. See Note 1.4.
The accompanying Notes 1 to 42 and Appendixes I and II, included in the Memorandum adjunted, are an integral part of the statement of cash flows for the year ended 31 December 2018.

Annual Accounts 2018

Annual Report

Financial Statements and Directors' Report for the Year Ended 31 December 2018 together with the Auditors' Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

Cecabank, S.A.

Notes to the Financial Statements
For the Year Ended 31 December 2018

1. Introduction, basis of presentation of the financial statements and other information

1.1. Introduction

Cecabank, S.A. (the "Bank" or the "Entity") is a financial institution established on 17 October 2012 by public deed before the Notary Mr. Manuel Richi Alberti. The Bank is registered in the Commercial Register since 12 November 2012 and the Register of financial institutions of Bank of Spain with the code 2000.

As from the entry into force of the Single Supervisory Mechanism ("SSM") on 4 November 2014, the European Central Bank ("ECB") assumed responsibility for supervising European credit institutions, one of which is the Bank. The SSM is a new banking supervision system that includes the ECB and the national supervisors (the Bank of Spain in the Spanish case). In the Bank's case, the ECB is empowered to determine and monitor the application of the supervision criteria, in close cooperation with the Bank of Spain. Therefore, the Bank of Spain is responsible for supervising the Bank directly, while the ECB supervises it indirectly since it has ultimate responsibility for ensuring that the SSM works correctly.

The Bank's headquarters is located in Madrid, at Calle Alcalá, 27. Either in this address or on its website (www.cecabank.es) the Bank's bylaws are available along with other relevant legal information.

The Confederación Española de Cajas de Ahorros ("CECA") holds 89% of the bank's share capital, as result of a spin-off of all its assets and liabilities carried out by the Confederación, except certain assets and liabilities relating to its welfare projects, to Cecabank, S.A., thereby creating the Bank in that year, which was subrogated to all the rights and obligations held by CECA until that.

The Bank bylaws set the activities that it may get involved in, establishing its economic purpose:

a) The develop of all type of activities, transactions and services inherent to the Banking business in general or related directly or indirectly with it and are allowed by the active legislation, including investment services and auxiliaries and those related with insurance mediation.

b) Providing technological, administrative or assessing services to Public Administrations as to any other public or private entity.

c) Acquisition, tenure and disposal of any real estate instrument.

Therefore, the Bank is part of the group of which the Confederación Española de Cajas de Ahorros is parent, with whom it made together with its associates, which are also shareholders of the Bank, a significant volume of transactions.

1.2. Basis of presentation of the financial statements

The Bank's financial statements for the year 2018 are presented in accordance with the regulatory financial reporting framework applicable to the Bank, which is that established in Bank of Spain Circular 4/2017, to credit institutions, on public and confidential financial reporting rules and formats (the "Circular 4/2017") and subsequent amendments. This

Circular of the Bank of Spain constitutes the development and adaptation to the Spanish credit institutions of the International Financial Reporting Standards adopted by the European Union.

The Bank's financial statements for the year 2018 have been prepared taking into account all the principles, accounting standards and valuation criteria of mandatory application, so that they present fairly the equity and financial position of the Bank as of 31 December 2018 and of the results of its operations and cash flows that have occurred in the financial year then ended, in accordance with the financial reporting framework mentioned in the previous paragraph, that is applicable and, in particular, with the principles and accounting criteria contained therein to which reference has been made in the previous paragraph.

The Bank´s financial statements for 2018 were formulated by the Board of Directors at its meeting held on 18 February 2019.

The Bank's financial statements for 2017 were approved by the General Shareholders' Meeting at its meeting held on March 20, 2018. The Bank's financial statements for the year 2018 are pending approval by its General Meeting. However, the Bank's Board of Directors understands that these annual accounts will be approved without significant changes.

1.3. Consolidation

The Bank is the head of a Group comprising various entities (see Note 2.1) and, as such, prepares consolidated financial statements with its subsidiaries. Per the content of the aforementioned consolidated financial statements, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, the total consolidated assets of the Bank and Subsidiaries ("the Cecabank Group") at the end of 2018 and 2017 amounted to EUR 9.653.023 thousand and EUR 9.963.209 thousand, respectively, consolidated equity amounted to EUR 1.074.958 thousand and EUR 1.059.363 thousand, respectively, and the consolidated net profit attributable to the Group for 2018 and 2017 amounted to EUR 63.489 thousand and EUR 73.219 thousand, respectively.

The Cecabank Group's condensed consolidated financial statements for 2018 and 2017 are as follows:

Assets	Thousands of Euros 2018	2017
Cash, cash balances at central banks and other demand deposits	3,268,540	2,658,845
Financial assets held for trading	1,920,383	2,144,770
Non trading financial assets mandatorily at fair value through profit or loss	60,413	-
Financial assets designated at fair value through profit or loss	-	256,876
Financial assets at fair value through other comprehensive income	1,478,973	1,772,261
Financial assets at amortised cost	2,499,151	2,685,286
Derivatives - hedge accounting	17	1,723
Investments in subsidiaries, joint ventures and associates	-	-
Tangible assets	51,179	52,418
Intangible assets	205,713	229,061
Tax assets	108,242	115,205
Other assets	56,621	42,977
Non-current assets and disposal groups classified as held for sale	3,791	3,787
TOTAL CONSOLIDATED ASSETS	**9,653,023**	**9,963,209**

Liabilities	Thousands of Euros 2018	2017
Financial liabilities held for trading	1,376,857	1,539,978
Financial liabilities designated at fair value through profit or loss	-	-
Financial Liabilities at Amortised Cost	6,947,403	7,033,114
Derivatives - hedge accounting	6,898	1,412
Provisions	122,595	151,843
Tax Liabilities	19,051	26,188
Other Liabilities	105,261	151,311
TOTAL LIABILITIES	**8,578,065**	**8,903,846**
Equity:		
Shareholders´ equity	1,064,741	1,013,882
Share Capital	112,257	112,257
Share Premium	615,493	615,493
Retained earnings	267,914	-
Other Reserves	5,591	212,914
Profit for the year	63,486	73,218
Accumulated other comprehensive income	9,768	45,058
Minority interests [non-dominant shares]	449	423
TOTAL CONSOLIDATED EQUITY	**1,074,958**	**1,059,363**
TOTAL CONSOLIDATED EQUITY AND LIABILITIES	**9,653,023**	**9,963,209**

Consolidated Income Statements for the year 2018 and 2017:

	Thousands of Euros	
	2018	**2017**
Interest income	90,055	89,648
Interest expenses	(83,751)	(71,253)
Net Interest Income	**6,304**	**18,395**
Dividend income	15,199	39,474
Share of results of entities accounted for using the equity method	-	-
Fee and commission income	134,359	136,384
Fee and commission expenses	(15,172)	(14,941)
Gains or losses on derecognition of assets and liabilities not measured at fair value through profit or loss, net	23,430	10,639
Gains or losses on financial assets and liabilities held for trading, net	(15,900)	(33,606)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(4,477)	-
Gains and losses on financial assets designated at fair value through profit or loss, net	(10)	(18)
Gains or losses from hedge accounting, net	(3,824)	(4,798)
Exchange differences, [gains or losses], net	65,158	65,393
Other operating income	55,298	57,562
Other operating expenses	(9,814)	(9,984)
Gross Income	**250,551**	**264,500**
Administrative expenses	(128,135)	(131,885)
Depreciation and amortisation charge	(46,283)	(56,881)
Provisions or reversal of provisions	12,125	16,909
Impairment or reversal of impairment and gains or losses due to changes in cash flows of financial assets not measured at fair value through profit or loss or net gains or losses due to changes	490	7,132
Profit from Operations	**88,748**	**99,775**
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	-	-
Gains or losses on derecognition of non-financial assets and investments, net	(2)	2
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(10)	8,382
Profit or loss before tax from continuing operations	**88,736**	**108,159**
Tax expense or income related to profit or loss from continuing operations	(25,247)	(34,940)
Profit or loss after tax from continuing operations	**63,489**	**73,219**
Profit or loss after tax from discontinued operations	-	-
Profit for the year	**63,489**	**73,219**
Attributable to minority interests (non-dominant shares)	3	1
Attributable to dominant shares	63,486	73,218

Consolidated Statements of Recognized Income and Expense for the years 2018 and 2017:

	Thousands of Euros	
	2018	**2017**
Profit for the year	**63,489**	**73,219**
Other comprehensive income	**(29,625)**	**(15,760)**
Items that will not be reclassified to profit or loss	1,823	1,557
Items that will not be reclassified to profit or loss	(31,448)	(17,317)
Debt securities at fair value through other comprehensive income	(44,926)	(14,390)
Non-current assets and disposal groups held for sale	-	(10,349)
Income tax relating to items that may be reclassified to profit or loss	13,478	7,422
Total comprehensive consolidated income for the year	**33,864**	**57,459**
Attributable to Minority interests (non-dominant shares)	3	1
Attributable to Dominant shares	33,861	57,458

Consolidated statements of changes in equity for the years 2017 and 2018:

	Thousands of Euros													
	Consolidated statements of changes in equity													
	Equity											Minority interests		
Sources of equity changes	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit for the year attributable to the owners of the dominant	(-) Interim dividends	Accumulated other comprehensive income	Accumulated other comprehensiv e income	Others	Total Equity
Opening balance (before restatement) at 1 January 2017	**112,257**	**615,493**	-	-	-	-	**155,613**	-	**76,390**	-	**60,818**	-	**421**	**1,020,992**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2017	**112,257**	**615,493**	-	-	-	-	**155,613**	-	**76,390**	-	**60,818**	-	**421**	**1,020,992**
Total recognized income and expense	-	-	-	-	-	-	-	-	**73,218**	-	**(15,760)**	-	**1**	**57,459**
Other changes in equity	-	-	-	-	-	-	**57,301**	-	**(76,390)**	-	-	-	**1**	**(19,088)**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members)	-	-	-	-	-	-	-	-	(19,089)	-	-	-	-	(19,089)
Transfers among components of equity	-	-	-	-	-	-	57,301	-	(57,301)	-	-	-	1	1
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2017	**112,257**	**615,493**	-	-	-	-	**212,914**	-	**73,218**	-	**45,058**	-	**423**	**1,059,363**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	**5,536**	-	-	-	**(5,665)**	-	-	**(129)**
Opening balance at 1 January 2018	**112,257**	**615,493**	-	-	-	-	**218,450**	-	**73,218**	-	**39,393**	-	**423**	**1,059,234**
Total comprehensive income for the year	-	-	-	-	-	-	-	-	**63,486**	-	**(29,625)**	-	**3**	**33,864**
Other changes in equity	-	-	-	-	**267,914**	-	**(212,859)**	-	**(73,218)**	-	-	-	**23**	**(18,140)**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members)	-	-	-	-	-	-	-	-	(18,304)	-	-	-	-	(18,304)
Transfers among components of equity	-	-	-	-	267,828	-	(212,914)	-	(54,914)	-	-	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	86	-	55	-	-	-	-	-	23	164
Closing balance at 31 December 2018	**112,257**	**615,493**	-	-	**267,914**	-	**5,591**	-	**63,486**	-	**9,786**	-	**449**	**1,074,958**

Consolidated Cash Flow Statements for the years 2018 and 2017:

Consolidated Cash Flow Statements	Thousands of Euros 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:	**649,675**	**713,309**
Profit for the year	**63,489**	**73,219**
Adjustments made to obtain the cash flows from operating activities	**101,840**	**113,911**
Net (increase)/decrease in operating assets	**835,702**	**757,457**
Financial assets held for trading	215,535	(124,868)
Non trading financial assets mandatorily at fair value through profit or loss	31,355	-
Financial assets designated at fair value through profit or loss	256,866	809,542
Financial assets at fair value through other comprehensive income	160,483	1,521,149
Financial assets at amortised cost	185,556	(1,460,611)
Other operating assets	(14,093)	12,245
Net increase/(decrease) in operating liabilities	**(338,325)**	**(195,537)**
Financial liabilities held for trading	(163,121)	(239,822)
Financial liabilities designated at fair value through profit or loss	-	(185,902)
Financial liabilities at amortised cost	(85,711)	302,469
Other operating liabilities	(89,493)	(72,282)
Income tax recovered/(paid)	**(13,031)**	**(35,741)**
Total cash flows from operting activities	**649,675**	**713,309**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments	(21,705)	(225,525)
Proceeds	-	-
Total cash flows from investing activities	**(21,705)**	**(225,525)**
Payments	(18,304)	(19,087)
Proceeds	-	-
Total cash flows from financing activities	**(18,304)**	**(19,087)**
Effect of foreign Exchange rate changes		-
Net increase/decrease in cash and cash equivalents	**609,666**	**468,697**
Cash and cash equivalents at beginning of year	2,658,874	2,190,148
Cash and cash equivalents at end of year	3,268,540	2,658,845

1.4. Information relating to 2017

The information contained in the 2018 financial statements for fiscal year 2017 is presented only for comparative purposes with the information on fiscal 2018 and, therefore, it does not represent the Bank's financial statements for fiscal year 2017.

Bank of Spain Circular 4/2017, of 27 November, which introduced amendments to the requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting, came into force on 1 January 2018. A description of the new accounting treatment used is provided in Note 2 to these financial statements.

1.4.1. Presentation of comparative information pursuant to Circular 4/2017

In this connection, the Bank opted for the partial retrospective application of the classification and measurement impacts of Circular 4/2017 and did not restate prior period information. However, solely for presentation purposes and to assist comparison of the current reporting period with the comparative information for the prior period following the regulatory change, the comparative formats for the balance sheet, statement of profit or loss, statement of comprehensive income, statement of changes in total equity and statement of cash flows were modified disregarding the effects of adoption of the new classification and measurement criteria established in Circular 4/2017 on these financial statements. Accordingly, it should be taken into account that these formats differ from those included in the statutory financial statements for the year ended 31 December 2017. For these purposes, the most significant changes were as follows:

- Creation of the category of “Non-trading financial assets mandatorily at fair value through profit or loss”.
- Replacement of the category of “Available for sale financial assets” with “Financial assets at fair value through other comprehensive income”.
- Removal of the category of “Held-to-maturity investments”.
- Replacement of the category of “Loans and receivables" with “Financial assets at amortised cost”.

Below is the reconciliation between the balance sheet of the Bank for the year ended 31 December 2017, in accordance with the format of the previous regulations (Circular 4/2004), approved by the General Shareholders Meeting held on 20 March 2018, and the balance sheet of the Bank at 31 December 2017 amended in line with the new formats, considering only the changes relating to the transfer of the different financial instruments:

Balance:

		Thousands of Euros		
	Note	31.12.2017 (Circular 4/2004)	Transfers	31.12.2017 (Circular 4/2017)
Cash, cash balances in Central Banks and other demand deposits		2,656,780	-	2,656,780
Financial assets held for negotiation		2,144,770	-	2,144,770
Non-trading financial assets mandatorily at fair value through profit or loss			-	-
Financial Assets at fair value with changes through profit or loss		256,876	-	256,876
Financial assets at fair value through other comprehensive income	(1)		1,772,261	1,772,261
Available-for-sale financial assets	(1)	1,772,261	(1,772,261)	
Financial assets at amortised cost	(2)		2,684,459	2,684,459
Loans and receivables	(2)	2,684,459	(2,684,459)	
Derivatives- Hedge Accounting		1,723	-	1,723
Changes in fair value of the hedged items of a portfolio with hedged interest rate risk		-	-	-
Share for the investments in joint ventures and associates		416	-	416
Group entities	(3)	416	(416)	
Subsidiaries	(3)		416	416
Assets covered by insurance or reinsurance contracts		-	-	-
Tangible assets		52,413	-	52,413
Intangible assets		228,864	-	228,864
Tax assets		115,167	-	115,167
Other assets		42,944	-	42,944
Non-current assets and disposable groups of items classified as held for sale		3,787	-	3,787
TOTAL ASSETS		**9,960,460**	**-**	**9,960,460**

	Note	31.12.2017 (Circular 4/2004)	Transfers	31.12.2017 (Circular 4/2017)
		Thousands of Euros		
Financial liabilities held for negotiation		1,539,978	-	1,539,978
Financial liabilities at fair value with changes recognised in P&L		-	-	-
Financial liabilities at amortised cost		7,032,621	-	7,032,621
Derivatives- Hedge Accounting		1,412	-	1,412
Changes in fair value of the hedged items of a portfolio with hedged interest rate risk		-	-	-
Liabilities covered by insurance or reinsurance contracts		-	-	-
Provisions		151,843	-	151,843
Tax liabilities		26,188	-	26,188
Share capital payable on demand		-	-	-
Other liabilities		150,739	-	150,739
Liabilities included in disposable groups classified as held for sale		-	-	-
TOTAL LIABILITIES		8,902,781	-	8,902,781
Shareholders' equity		**1,012,621**	**-**	**1,012,621**
Share capital		112,257	-	112,257
Share premium		615,493	-	615,493
Equity instruments issued different than share capital		-	-	-
Other Equity items		-	-	-
Accumulated gains		-	-	-
Revaluation reserves		-	-	-
Other reserves		211,653	-	211,653
Less: Treasury shares		-	-	-
Profit(loss) attributable to the Parent Company owners		73,218	-	73,218
Less: Interim Dividends		-	-	-
Other accumulated comprehensive income		**45,058**	**-**	**45,058**
Items not to be transferred to profit and loss		11,019	7,299	18,318
Actuarial gains (losses) on defined benefits pension plans		*11,019*	-	*11,019*
Changes of fair value of equity instruments measured at fair value through other comprehensive income		-	-	-
Items to be transferred to profit and loss	(4)		*7,299*	*7,299*
Other accumulated comprehensive income		34,039	(7,299)	26,740
Available-for-sale financial assets		*34,039*	*(34,039)*	
Debt instruments	(5)	*26,740*	*(26,740)*	
Equity instruments	(4)	*7,299*	*(7,299)*	
Changes of fair value of debt instruments measured at fair value through other comprehensive income	(5)		*26,740*	*26,740*
Non-current assets and disposable groups of items classified as held for sale		-	-	-
TOTAL EQUITY		1,057,679	-	1,057,679
TOTAL EQUITY AND LIABILITIES		9,960,460	-	9,960,460

Explanatory notes to the adjusted consolidated balance sheet as at 31 December 2017

(1) The debt securities and equity instruments amounting to EUR 1,722,261 thousand included in "Available-for-Sale Financial Assets" at 31 December 2017 are classified under the new "Financial Assets at Fair Value through Other Comprehensive Income" heading.

(2) "Financial Assets at Amortised Cost" includes the balance of the former "Loans and Receivables" heading amounting to EUR 2,684,459 thousand at 31 December 2017.

(3) The "Investments in Subsidiaries, Joint Ventures and Associates - Group Entities" heading is replaced and the total balance at 31 December 2017, amounting to EUR 416 thousand, is reclassified to the new "Investments in Subsidiaries, Joint Ventures and Associates - Subsidiaries" heading.

(4) Transfer of the full amount of the balance classified under "Items that May Be Reclassified to Profit or Loss - Available-for-Sale Financial Assets - Equity Instruments" amounting to EUR 7,299 thousand at 31 December 2017 to the new "Items that Will Not Be Reclassified to Profit or Loss - Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income" heading.

(5) Transfer of the full amount of the balance classified under "Items that May Be Reclassified to Profit or Loss - Available-for-Sale Financial Assets - Debt Instruments" amounting to EUR 26,740 thousand at 31 December 2017 to the new "Items that May Be Reclassified to Profit or Loss - Fair Value Changes of Debt Instruments Measured at Fair Value through Other Comprehensive Income" heading.

Statements of recognised income and expense

	Note	31.12.2017 (Circular 4/2004)	Transfers	31.12.2017 (Circular 4/2017)
		Thousands of Euros		
PROFIT FOR THE YEAR		**73,218**	**-**	**73,218**
OTHER COMPREHENSIVE INCOME		**(15,760)**	**-**	**(15,760)**
Items that will not be reclassified to profit or loss		**1,557**	**-**	**1,557**
Actuarial gains or losses on defined benefit pension plans		2,224	-	2,224
Non-current assets and disposal groups held for sale		-	-	-
Changes of fair value of equity instruments measured at fair value through other comprehensive income			-	-
Gains or losses from hedge accounting of equity instruments measured at fair value through other comprehensive income, net		-	-	-
Other value adjustments		-	-	-
Tax on gains related to the items that will not be reclassified		(667)	-	(667)
Items that may be reclassified to profit or loss		**(17,317)**	**-**	**(17,317)**
Hedge of net investments in foreign operations		-	-	-
Foreign currency translation		-	-	-
Cash flow hedges		-	-	-
Available for sale financial assets		(14,390)	14,390	
Valuation gains or losses taken to equity	(1)	(3,754)	3,754	
Transferred to profit or loss	(1)	(10,636)	10,636	
Other reclassifications		-	-	
Debt instruments at fair value through other comprehensive income			(14,390)	(14,390)
Valuation gains or losses taken to equity	(1)		(3,754)	(3,754)
Transferred to profit or loss	(1)		(10,636)	(10,636)
Other reclassifications			-	-
Non-current assets and disposal groups held for sale		(10,349)	-	(10,349)
Valuation gains or losses taken to equity		(1,967)	-	(1,967)
Transferred to profit or loss		(8,382)	-	(8,382)
Other reclassifications		-	-	-
Tax on gains related to the items that may be reclassified in profit or loss		7,422	-	7,422
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**57,458**	**-**	**57,458**

Explanatory notes to the adjusted consolidated statement of recognised income and expense for the year ended 31 December 2017

(1) The balances of “Valuation Gains or Losses Taken to Equity - Available-for-Sale Financial Assets - Items that May Be Reclassified to Profit or Loss”, “Transferred to Profit or Loss - Available-for-Sale Financial Assets - Items that May Be Reclassified to Profit or Loss” and “Other Reclassifications - Available-for-Sale Financial Assets - Items that May Be Reclassified to Profit or Loss” were reclassified to “Valuation Gains or Losses Taken to Equity - Debt Instruments at Fair Value through Other Comprehensive Income - Items that May Be Reclassified to Profit or Loss”, “Transferred to Profit or Loss - Debt Instruments at Fair Value through Other Comprehensive Income - Items that May Be Reclassified to Profit or Loss” and “Other Reclassifications - Debt Instruments at Fair Value through Other Comprehensive Income - Items that May Be Reclassified to Profit or Loss”.

For purposes of the presentation of the adjusted statement of comprehensive income, the valuation adjustments of the debt and equity instruments were grouped together without taking into account the effects of the application of Circular 4/2017 that mean that once valuation adjustments are made to equity instruments, they are not reclassified to profit or loss.

1.4.2. Effects of initial application of Circular 4/2017

Following disclosure of the various transfers arising from the entry into force of the new Bank of Spain Circular 4/2017, the effects of initial application thereof in relation to the classification, measurement and impairment of financial instruments are described below, including a comparison between the Bank's balance sheet as at 31 December 2017 and the Bank's balance sheet as at 1 January 2018 in accordance with the legislation in force at this date:

	Thousands of Euros			
	Note	**31.12.2017**	Classification, measurement and impairment (Circular 4/2017 application)	**01.01.2018**
Cash, cash balances in Central Banks and other demand deposits		2,656,780	29	2,656,809
Financial assets held for negotiation		2,144,770	-	2,144,770
Non-trading financial assets mandatorily at fair value through profit or loss	(1), (2)	-	96,656	96,656
Financial Assets at fair value with changes through profit or loss		256,876	-	256,876
Financial assets at fair value through other comprehensive income	(1), (2)	1,772,261	(96,236)	1,676,025
Financial assets at amortised cost	(3), (4)	2,684,459	(431)	2,684,028
Derivatives- Hedge Accounting		1,723	-	1,723
Changes in fair value of the hedged items of a portfolio with hedged interest rate risk		-	-	-
Share for the investments in joint ventures and associates		416	-	416
Assets covered by insurance or reinsurance contracts		-	-	-
Tangible assets		52,413	-	52,413
Intangible assets		228,864	-	228,864
Tax assets	(5)	115,167	440	115,607
Other assets		42,944	-	42,944
Non-current assets and disposable groups of items classified as held for sale		3,787	-	3,787
TOTAL ASSETS		**9,960,460**	**458**	**9,960,918**

		Thousands of Euros		
	Note	31.12.2017 (Circular 4/2017)	Classification, measurement and impairment (Circular 4/2017 application)	01.01.2018 (Circular 4/2017)
Financial liabilities held for negotiation		1,539,978	-	1,539,978
Financial liabilities at fair value with changes recognised in P&L		-	-	-
Financial liabilities at amortised cost		7,032,621	-	7,032,621
Derivatives- Hedge Accounting		1,412	-	1,412
Changes in fair value of the hedged items of a portfolio with hedged interest rate risk		-	-	-
Liabilities covered by insurance or reinsurance contracts		-	-	-
Provisions	(4)	151,843	201	152,044
Tax liabilities	(5)	26,188	386	26,574
Share capital payable on demand		-	-	-
Other liabilities		150,739	-	150,739
TOTAL LIABILITIES		8,902,781	587	8,903,368
Shareholders' equity		**1,012,621**	**5,536**	**1,018,157**
Share capital		112,257	-	112,257
Share premium		615,493	-	615,493
Equity instruments issued different than share capital		-	-	-
Other Equity items		-	-	-
Accumulated gains		-	-	-
Revaluation reserves		-	-	-
Other reserves	(1),(2),(3),(4)	211,653	5,536	217,189
Less: Treasury shares		-	-	-
Profit(loss) attributable to the Parent Company owners		73,218	-	73,218
Less: Interim Dividends		-	-	-
Other accumulated comprehensive income	(1),(2)	**45,058**	**(5,665)**	**39,393**
TOTAL EQUITY		1,057,679	(129)	1,057,550
TOTAL EQUITY AND LIABILITIES		9,960,460	458	9,960,918

Explanatory notes to the balance sheet as at 1 January 2018:

(1) Transfer of equity instruments under “Financial Assets Measured at Fair Value through Other Comprehensive Income” amounting to EUR 30,305 thousand to the new “Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss” line item, for the same amount. The transfer gave rise to an increase in “Other Reserves” of EUR 5,607 thousand, net of the related tax effect, the balancing entry of which was a reduction in “Accumulated Other Comprehensive Income”.

(2) Transfer of debt instruments under “Financial Assets at Fair Value through Other Comprehensive Income” amounting to EUR 65,444 thousand to the new “Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" line item, for EUR 66,112 thousand. This transfer gave rise to an increase in the value of assets of EUR 668 thousand and an upward adjustment to reserves of EUR 526 thousand, net of the related tax effect.

(3) Transfer of written off debt instruments classified under “Financial Assets at Amortised Cost” to the new “Non-Trading Financial Assets Mandatorily at Fair Value through Profit or Loss" line item, for EUR 239 thousand. This transfer led to an upward adjustment to reserves of EUR 167 thousand, net of the related tax effect.

(4) Adjustment due to impairment losses and provisions associated with initial application of Circular 4/2017 which had a negative effect of EUR 764 thousand on reserves.

(5) Tax adjustment associated with the transfers mentioned above arising from initial application of the new Circular 4/2017.

1.5. Responsibility for the information and use of estimates

The information in these financial statements is the responsibility of the Bank's Directors.

In the preparation of the Bank's financial statements for 2018 estimates were made by its Directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets (see Notes 2.3, 2.13, 2.14 and 2.16).
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations and other long-term obligations to employees (see Note 2.11).
- Calculation of the provisions, if any, to be recognised to cover certain risks arising from the Bank’s activity (see Notes 2.10 and 2.15).
- The useful life of the tangible and intangible assets (see Notes 2.13 and 2.14); and
- The fair value of certain unquoted financial instruments (see Note 2.2.3).
- The assumptions used in the estimates of the probability of recovery of the deferred tax assets recognized by the Bank (see Note 2.12).

Although these estimates were made on the basis of the best information available at 31 December 2018 and at the date on which these financial statements were authorized for issue on the events analyzed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Any required changes in accounting estimates would be applied prospectively in accordance with the applicable standards, recognizing the effects of the change in estimates in the income statements for the years in question.

1.6. Agency agreements

Neither at 2018 nor 2017 year-end nor at any other time during those years did the Bank have any agency agreements in force, as defined in Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

1.7. Investments in the share capital of credit institutions

At of 31 December 2018 and 2017 the Bank did not hold any ownership interests of 5% or more in the share capital or voting power of any Spanish or foreign credit institutions.

1.8. Environmental impact

In view of the business activities carried on by the Bank, it does not have a significant impact on the environment. Therefore, it was not necessary to recognise any provision in this connection the Bank's financial statements for 2018 do not contain any disclosures on environmental issues.

1.9. Capital management objectives, policies and processes

On 2 February 2016, Bank of Spain Circular 2/2016, was published to credit institutions about supervision and solvency, which contemplates the adaptation of the Spanish legal order 2013/36/EU and Regulation (EU) nº 575/2013, which is applicable to the Bank.

This EU Regulation (EU) No 575/2013 laid down uniform rules that must be complied with by entities in relation to: 1) own funds requirements relating to elements of credit risk, market risk, operational risk and settlement risk; 2) requirements limiting large exposures; 3) liquidity risk coverage relating to entirely quantifiable, uniform and standardised elements of liquidity risk, after the Commission delegated act has entered into force; 4) the setting of the leverage ratio; and 5) public disclosure requirements.

The aforementioned EU Regulation introduces a review of the concept and of the components of the regulatory own funds required of entities. These consist of two elements: Tier 1 capital and Tier 2 capital. In turn, Tier 1 capital comprises Common Equity Tier 1 and Additional Tier 1 capital. Therefore, Tier 1 capital consists of instruments that are able to absorb losses when the entity is a going concern, while the elements of Tier 2 capital will absorb losses primarily when the entity is not viable.

Institutions must satisfy, with general character, the following own funds requirements at all times:

i) A Common Equity Tier 1 capital ratio of 4.5% (CET 1).

ii) A Tier 1 capital ratio (Common Equity plus Additional Tier 1) of 6%.

iii) A total capital ratio of 8%.

In addition to these requirements, pursuant to the aforementioned legislation the Bank must comply with the following capital requirements:

- Hold a capital conservation buffer, which was established as Common Equity Tier 1 capital equal to 0.625% of RWAs for 2016, and which will increase by an additional 0.625% each year until it reaches the required level of 2.5% of RWAs in 2019.
- Maintenance of a countercyclical capital buffer that may reach up to 2.5% of Common Equity Tier 1 (CET1) capital. As from 2016, the level to be reached by this buffer will be set by the Spanish authorities, on the basis of macroeconomic variables, whenever an excessive growth in credit which could be a source of systemic risk is observed. In this regard, at the end of 2016, the Bank of Spain announced that the countercyclical capital buffer for Spanish financial institutions would be maintained at 0% of credit risk exposure in Spain in the fourth quarter of 2016. The Bank has not been designated a systemically important institution, and a capital buffer has not been established for it for 2018.

Also, in addition to the aforementioned requirements, Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions establishes the power of the Bank of Spain to require credit institutions to hold higher levels of capital than those indicated above. In this respect, on 21 December 2018, the Bank of Spain notified Cecabank, S.A. that, in general, it complied with the requirements of Article 92.1 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, and set the Bank the requirement of maintaining a consolidated and individual TSCR ratio of no less than 10.23%. The Bank and its Group are also subject to the overall capital requirement (OCR) defined in Title 1.2 of the EBA/GL/2014/13 Guidelines which, in addition to the TSCR ratio, includes the combined capital buffer requirement, as defined in Articles 43 et seq of Law 10/2014 and the related implementing regulations. This requirement comes into force from 1 January 2019. On 19 December 2017, the Bank of Spain notified Cecabank, S.A. that it was required to maintain an overall consolidated and individual CET1 capital ratio of no less than 10.10%. At 31 December 2018, and throughout 2018, the Bank and the Group's individual and consolidated CET1 ratios exceeded the requirement for that year.

The strategic capital management objectives set by Bank management are as follows:

- To comply, at all times with the applicable regulations on minimum capital requirements.
- To seek maximum capital management efficiency so that, together with other profitability and risk variables, the use of capital is considered as a key variable in any analysis related to the Bank's investment decisions.

In order to meet these objectives, the Bank has in place a series of capital management policies and processes, the main cornerstones of which are as follows:

- In the Bank's strategic and operational planning, and in the analysis and follow-up of the operations of the Group to which it belongs, the impact of decisions on the Bank's eligible capital and the use-profitability-risk relationship is considered to be a key decision-making factor.
- As part of its organizational structure the Bank has monitoring and control units which at all times analyzes the level of compliance with the applicable regulations on capital, with alerts in place to guarantee compliance with the applicable regulations.

The Bank's management of its capital, as far as conceptual definitions are concerned, is in keeping with Regulation (EU) No 575/2013. With a view to ensuring that the aforementioned objectives are met, the Bank performs an integrated management of these risks, in accordance with the policies and processes indicated above.

The Bank's Common Equity Tier 1 capital and its CET 1 plus Additional Tier 1 capital amounted to EUR 791,312 thousand at 31 December 2018, in both cases (31 December 2017: EUR 724,332 thousand), while total capital amounted to EUR 791,312 thousand at that date (31 December 2017: EUR 725,969 thousand), representing a Tier 1 capital adequacy ratio and a total capital ratio of 35,83%, at 31 December 2018 (31 December 2017: 27,43% and 27,49%), above the minimum requirements.

Common Equity Tier 1 capital includes mainly share capital, share premium, the Bank's reserves net of deductions (intangible assets).

1.10. Minimum reserve ratio

Throughout the 2018 and 2017 years, the Bank met the minimum reserve ratio required by the applicable legislation.

At 31 December 2018 and 2017 the Bank's cash balance with Bank of Spain for these purposes amounted to EUR 3.046.432 and 2.468.451 thousand (see Note 5). This ratio is calculated on the basis of the daily ending balance held by the Bank in this account during the required period.

1.11. Deposit guarantee fund

a) Deposit guarantee fund

The Bank participates in the Deposit Guarantee Fund ("DGF"). The annual contribution to be made to this Fund, established by Royal Decree-Law 16/2011, of 14 October, creating the DGF, as amended by Final Provision Ten of Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment services firms (in force since 20 June 2015), is determined by the Managing Committee of the DGF and is calculated based on the amount of each entity's guaranteed deposits and its risk profile.

The purpose of the DGF is to guarantee deposits at credit institutions up to the limit envisaged in the aforementioned Royal Decree-Law. In order to achieve its objectives, the DGF is funded by the aforementioned annual contributions, the extraordinary levies the Fund makes on member entities and by the funds obtained in the securities markets, loans and any other debt transactions.

Taking the foregoing into account, in order to reinforce the equity of the DGF, Royal Decree-Law 6/2013, of 22 March, on protection of holders of certain savings and investment products and other financial measures established an extraordinary levy equal to 3 per mil of the institutions' deposits at 31 December 2012. This extraordinary levy was paid in two tranches:

i) Two-fifths to be paid within 20 business days from 31 December 2013. The Bank paid this contribution, which amounted to EUR 7 thousand, in the first few days of January 2014.

ii) Three-fifths to be paid within seven years in accordance with the payment schedule established by the Managing Committee of the DGF. In this regard, based on the contribution schedule approved by the Managing Committee of the DGF, the Bank paid one-seventh of this second tranche on 30 September 2014, and on 17 December 2014 the Managing Committee approved payment of the remainder of the second tranche in two disbursements on 30 June 2015 and 2016 (which were settled on that date).

Additionally, at its meeting on 12 December 2018, the Managing Committee of the DGF, as provided for in Article 6 of Royal Decree-Law 16/2011, of 14 October, creating the DGF, and in Article 3 of Royal Decree 2606/1996, of 20 December, on deposit guarantee funds for credit institutions, established the annual contributions of DGF member institutions for 2018 as follows:

a) The total annual contribution of all member institutions to the deposit guarantee compartment of the DGF was set at 1.8/1,000 of the calculation base -i.e. the guaranteed monetary deposits, as indicated in Article 3.2-a) of Royal Decree 2606/1996- existing at 30 June 2018, and the contribution of each institution was calculated on the basis of the amount of the guaranteed deposits and its risk profile.

b) The annual contribution of member institutions to the securities guarantee compartment of the DGF was set at 2/1,000 of the calculation base -i.e. 5% of the quoted price of the guaranteed securities, as indicated in Article 3.2-b) of Royal Decree 2606/1996- existing at 31 December 2018.

The expense incurred for the contributions accruing to the DGF during 2018 amounted to EUR 118 thousand (2017: EUR 66 thousand), which were recognized under “Other Operating Expenses” in the accompanying income statement (see Note 37).

b) Single Resolution Fund

In March 2014, the European Parliament and the Council reached a political agreement for the creation of the second pillar of Banking Union, the Single Resolution Mechanism (“SRM”). The SRM's main purpose is to ensure an orderly resolution of failing banks in the future with minimal costs to taxpayers and to the real economy. The SRM's scope of activity is identical to that of the SSM, i.e., a central authority, the Single Resolution Board (“SRB”), is ultimately responsible for deciding whether to initiate the resolution of a bank, while the operational decision is implemented in cooperation with the national resolution authorities. The SRB commenced its work as an independent EU agency on 1 January 2015.

The purpose of the rules governing banking union is to ensure that bank resolutions will be financed first of all by the banks and their shareholders and, if necessary, partly by the bank's creditors. However, another source of funding will also be available to which recourse can be had if the contributions of the shareholders and of the bank's creditors are not sufficient. This is the Single Resolution Fund (“SRF”), which is administered by the SRB. The legislation requires banks to make the contributions to the SRF over eight years.

In this regard, on 1 January 2016, Regulation (EU) No 806/2014 of the European Parliament and of the Council, of 15 July 2014, came into force. Under this Regulation the SRB replaces the national resolution authorities with respect to the management of financing arrangements for the resolution mechanisms for credit institutions and certain investment firms within the framework of the SRM. As a result, the SRB is now responsible for administering the SRF and for calculating the ex-ante contributions of institutions within its scope of application.

The SRB calculates the contributions to be paid by each institution in accordance with the information sent to each institution in an official form for the calculation of the ex-ante contribution. The amount was the result of applying the calculation methodology specified in Commission Delegated Regulation (EU) 2015/63, of 21 October 2014, based on the uniform conditions of application indicated in Council Implementing Regulation (EU) 2015/81, of 19 December 2014.

The target level for all the contributions has been set at one-eighth of 1.05% of the quarterly average of covered deposits in the eurozone in 2015, resulting in a Europe-wide contribution target for the Fund of EUR 7,008 million in 2016. Article 69 of Regulation (EU) No 806/2014 establishes that the available financial means of the Fund (at least 1% of the amount of covered deposits) must be reached within eight years from 1 January 2016.

Article 8.1 of Council Implementing Regulation (EU) 2015/81 stipulates that 60% of the contributions shall be calculated on a national basis and the remaining 40% on a basis common to all participating member States.

The expense incurred by the Bank in relation to the contribution made to the SRF in 2018 totalled EUR 3,835 thousand (2017: EUR 4.322 thousand) and is recognized under "Other Operating Expenses" in the accompanying income statement (see Note 37).

1.12. Main regulatory changes during the period from 1 January to 31 December 2018

Following is a summary of the main Bank of Spain Circulars issued in 2018:

Bank of Spain Circular 1/2018, of 31 January, amending Bank of Spain Circular 5/2016, of 27 May, on the method of calculation to be used for contributions by the member entities of the Deposit Guarantee Fund for Credit Institutions to be proportionate to their risk profiles, and Bank of Spain Circular 8/2015, of 18 December, to member entities and branches belonging to the Deposit Guarantee Fund for Credit Institutions, on the information to determine the bases for calculating the contributions to the Deposit Guarantee Fund for Credit Institutions (Spanish Official State Gazette (BOE) of 9 February).

This Circular amended Bank of Spain Circular 5/2016 to adapt it to current legislation, in order to guarantee that the system of contributions to the DGF takes into account the risk profile of the member entities of an Institutional Protection Scheme (SIP). This amendment also requires the amendment of Circular 8/2015.

Bank of Spain Circular 2/2018, of 21 December, amending Bank of Spain Circular 4/2017, of 27 November, to credit institutions on public and confidential financial reporting rules and formats, and Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register.

The main purpose of this Circular is to adapt Bank of Spain Circular 4/2017 to Commission Regulation (EU) 2017/1986 of 31 October 2017 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (EU-IFRS) 16, Leases.

The main difference with respect to current legislation lies in the accounting treatment of the lessee, since lessor accounting has not changed significantly.

Under current legislation, in lessee accounting a distinction is drawn between finance leases –for which the lessee recognises an asset representing the leased asset and a liability representing its obligation to make lease payments– and operating leases –for which the lessee recognises an expense taken to profit or loss on an accrual basis–. Under the new rules, the lessee is required to recognise leases in the balance sheet by recognising a lease liability and a right-of-use asset, i.e. on a similar basis to that which had hitherto been used for finance leases. Simply put, leases with an initial term of twelve months or less, and leases for which the underlying asset is of low value, may be accounted for as operating leases were under the previous approach. Therefore, a new approach to the accounting treatment for leases has not been introduced, but rather the scope for the leases that an entity is required to recognise in the balance sheet has been extended.

The directors consider that this amendment will not have a significant effect on the Bank's financial statements.

The Circular also amends Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register (CCR), including minor changes in order to introduce clarifications and improvements.

2. Accounting policies and measurement bases

The accounting policies and measurement bases applied in preparing the Bank's financial statements were as follows:

2.1. Investments

2.1.1. Investments in subsidiaries, joint ventures and associates

“Subsidiaries” are defined as entities over which the Bank has the capacity to exercise control; control is, in general but not exclusively, presumed to exist when the Parent Company owns directly or indirectly half or more of the voting rights of the investee or, even if this percentage is lower or zero, when there are other circumstances or agreements that give the Bank control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

“Joint ventures” are deemed to be ventures that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more entities (“venturers”) acquire interests in entities (“jointly controlled entities”) or undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers.

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control, usually because it holds 20% or more of the voting power of the investee.

Investments in subsidiaries, joint ventures and associates are measured at cost net, where appropriate, of any accumulated impairment losses that may need to be recognised. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs of disposal and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement.

Impairment losses are recognised immediately in the statement of profit or loss for the period in which they arise. Reversals of previously recognised impairment losses are recognised immediately in the statement of profit or loss for the period.

Any dividends earned on these ownership interests in the year are recognised under “Dividend Income” in the statement of profit or loss when earned, which is when the Bank’s right to receive them is established, which is the date on which they are declared by the related governing bodies of the investees.

Note 11 and Appendix I to these financial statements provide significant information on these companies and on the most significant acquisitions and disposals in 2018 and 2017.

2.2. Financial instruments - Initial recognition, derecognition, definitions of fair value and amortized cost and classification categories and measurement of financial assets and liabilities

2.2.1. Initial recognition of financial instruments

Financial instruments are initially recognized in the balance sheet when the Bank becomes a party to the contract originating them in accordance with the terms and conditions thereof. Specifically, debt instruments, such as loans and cash deposits, are recognized from the date on which the legal right to receive or the legal obligation to pay cash arises. Derivative financial instruments are generally recognized from the trade date.

A regular way purchase or sale of financial assets, defined as one in which the parties' reciprocal obligations must be discharged within a time frame established by regulation or convention in the marketplace and that may not be settled net, such as stock market and forward currency purchase and sale contracts, is recognized on the date from which the rewards, risks, rights and duties attaching to all owners are for the purchaser, which, depending on the type of financial asset purchased or sold, may be the trade date or the settlement or delivery date. In particular, transactions performed in the spot currency market are recognized on the settlement date; equity instruments traded in Spanish secondary securities markets are recognized on the trade date and debt instruments traded in these markets are recognized on the settlement date.

2.2.2. Derecognition of financial instruments

A financial asset is derecognized when:

- The contractual rights to the cash flows from the financial asset expire; or
- The financial asset is transferred and substantially all its risks and rewards are transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred (see Note 2.4).

Also, a financial liability is derecognized when the obligations it generates have been extinguished or when it is purchased by the Bank, with the intention either to re-sell it or to cancel it.

2.2.3. Fair value and amortized cost of financial instruments

The fair value of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable parties in an arm's length transaction. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organized, transparent and deep market (“quoted price” or “market price”).

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

Specifically, the fair value of financial derivatives included in the portfolios of financial assets or liabilities held for trading which are traded in organized, transparent and deep markets is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price at a given date cannot be determined, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives or derivatives traded in scantly deep or transparent organized markets is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques recognized by the financial markets: "net present value" (NPV), option pricing models, etc.

Amortized cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interest repayments and the cumulative amortization (taken to the income statement), calculated using the effective interest method, of the difference between the initial cost and the maturity amount of such financial instruments. In the case of financial assets, amortized cost furthermore includes any reductions for impairment or uncollectibility.

The Bank has contracted at 31 December 2018 and 2017 various operations of reverse repurchase loan (see Notes 6.3 and 8), at which expiration, it must give the debtor back the ownership of the securities that constitute its guarantee. At 31 December 2018 and 2017 the fair value of the securities received as collateral in these transactions repos does not differ significantly from the carrying value of these operations.

The effective interest rate is the discount rate that exactly matches the initial amount of a financial instrument to the present value of all its estimated cash flows of all kinds during its remaining life, disregarding future losses from credit risk. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition or arrangement date adjusted, where applicable, for the fees, premiums, discounts and transaction costs that, pursuant to the Circular 4/2017, must be included in the calculation of the effective interest rate. In the case of floating rate financial instruments, the effective interest rate is determined using a method similar to that for fixed rate transactions and is recalculated on each contractual interest reset date, taking into account any changes in the future cash flows.

2.2.4. Classification and measurement of financial assets and liabilities

Pursuant to Circular 4/2017, the classification and valuation of the financial assets is performed according to the business model considered by the Bank for the management and the features of the contractual flows, as defined below:

- The business model for the management of financial assets is the mechanism in which the Bank jointly manages the groups of financial assets to generate cash flows. This model may consist in holding onto these financial assets so to receive their contractual cash flows, for the sale of these assets or a combination of both objectives.
- The characteristics of the contractual cash flows of financial assets can be those whose contractual terms and conditions provide, on determined dates, cash flows and consist only of payments of principal and interest on the outstanding principal, commonly known as "Solely Payments of Principal and Interest (SPPI)" and all other characteristics.

a) Business models

There are three types of business models, which are based on the treatment of cash flows for financial instruments:

- **Amortised cost - collection of contractual cash flows:** consists of holding assets for the purpose of collecting contractual cash flows (principal and interest) on specific dates during the term of the instrument.
- **Mixed - collection of contractual cash flows and the disposal of financial assets:** this mixed business model combines the objective of holding assets to collect contractual cash flows, whose conditions cover the payments of principal and interest, and also the disposal of these assets.
- **Trade - sale of financial assets:** the business model consists of purchasing and disposal of assets. The Bank makes its decisions based on the fair value of the assets and manages these in order to obtain their fair value.

b) SPPI Test

The purpose of the SPPI test is to determine whether or not, in accordance with the contractual characteristics of the instrument, cash flows are representative of only the repayment of the principal and interest, essentially understood as being the compensation for the time value of money and the credit risk of the debtor.

The main function of the test is to differentiate which products covered by the "collection of contractual cash flows" and "collection of contractual cash flows and the disposal of financial assets" business models can be measured at amortised cost and at fair value through other comprehensive income, respectively, or, on the contrary, that must be measured at fair value through profit or loss. Debt instruments that are measured at fair value through profit or loss, as well as equity instruments, are not subject to this analysis.

Specifically, financial assets based on its business model and the SPPI test can be classified as:

- **Financial assets at amortised cost:** when the instrument is managed in order to generate cash flows in the form of contractual collections during the life of the instrument while passing the SPPI test.
- **Financial assets at fair value through other comprehensive income:** when the instrument is managed to generate cash flows, i) in the form of contractual collections during the life of the instrument or ii) through their sale while passing the SPPI test.
- **Financial assets held at fair value through profit and loss:** when the instrument is managed to generate cash flows through their sale or when it does not pass the SPPI test based on the business models of the previous sections. There are two categories for these assets:
  - **Financial assets held for trading**. This subcategory includes instruments that have any of the following characteristics: i) they are held for the purpose of converting them into cash in the short term; ii) they are part of a group of financial instruments identified and jointly managed and there is evidence of recent actions to achieve short-term profit taking and iii) they are derivative instruments that do not meet the definition of a financial guarantee agreement nor have they been classified as hedging instruments.
  - **Non-trading financial assets mandatorily at fair value through profit or loss.** This subcategory includes the rest of financial assets.

The Bank may decide at the time of the initial recognition, and irrevocably, to include any equity instruments that cannot be classified as held for trading in the "Financial assets at fair value through other comprehensive income" portfolio. This option will be carried out on an instrument by instrument basis. Also, during the initial recognition, and irrevocably, the Bank may choose to designate any financial asset as fair value through profit or loss, and by doing so eliminates or significantly reduces any inconsistency in the valuation or recognition (accounting asymmetry) that would otherwise arise, for the valuation of assets or liabilities, or the recognition of their gains and losses, on different bases.

Regardless of the frequency and importance of sales, certain types of sales are not incompatible with the category held to receive contractual cash flows: such as sales due to a reduction in credit quality, sales close to the expiration of operations, so that any changes to market prices would not have a significant effect on the cash flows of the financial asset, sales in response to a change in the regulatory or taxation rules, sales in response to an internal restructuring or significant business combination, derivative sales during the execution of a liquidity crisis plan when the crisis event is not reasonably expected.

On 1 January 2018, the Bank defined the business models and segmented its portfolio of financial instruments for the purpose of performing the SPPI tests, while distinguishing the following: i) families of instruments that group together fully homogeneous products ("umbrella families") in such a way that, while testing a sample of portfolio products, a conclusion could be drawn whether or not the other products of the same family pass the test and ii) products, due to their nature, requiring an individual analysis ("case by case") that the Bank has to make for all the SPPI tests.

Nevertheless, financial instruments that should be considered as non-current assets and disposal groups classified as held for sale are recognised in the financial statements as explained in section 2.16 of this Note.

As for the classification of financial liabilities, they are included for the purpose of valuation in some of the following three portfolios:

- **Financial liabilities at fair value through profit or loss,** this category includes financial liabilities designated as such from initial recognition, the fair value of which may be determined reliably, and which meet the same conditions than for the financial assets at fair value with changes in profit or loss previously described.
- **Financial liabilities held for trading,** include those that have been issued with an intention to repurchase them in the near term or that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking; short positions arising from sales of temporary purchased assets under non-optional repurchase agreements or borrowed securities, and derivatives other than as hedging instruments.
- **Financial liabilities at amortised cost**, this category includes all financial instruments except for those qualified for being included in the other portfolios.

2.3. Impairment of financial assets

A financial asset is considered to be impaired -and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.
- In the case of equity instruments, mean that their carrying amount may not be fully recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the income statement for the period in which the impairment becomes evident. Except for financial assets at fair value through other comprehensive income, which accounting will be recognize against “other comprehensive income”. The reversal, if any, of previously recognized impairment losses is recognized in the income statement for the period in which the impairment is reversed or reduced to accumulated other comprehensive income.

When the recovery of any recognized amount is considered unlikely, the amount is written off (“written-off asset”), without prejudice to any actions that the Bank may initiate to seek collection until their contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

The criteria applied by the Bank to determine possible impairment losses in each of the various financial instrument categories and the method used to recognize such impairment losses are as follows:

2.3.1. Debt instruments carried at amortized cost

The amount of an impairment loss incurred on a debt instrument carried at amortized cost is equal to the positive difference between its carrying amount and the all the cash flows at the effective original interest rate. The market value of quoted debt instruments is deemed to be a reliable estimate of the present value of their future cash flows.

The expected credit losses will be the weighted average of the credit losses, using as weights the respective risks of default events. The following distinction will be taken into account: i) Expected credit losses in the life of the operation: these are the expected credit losses resulting from all possible events of default during the entire expected life of the operation. ii) Expected credit losses in twelve months: they are the part of the credit losses expected during the life of the operation that corresponds to the expected credit losses resulting from the events of default that may occur in the operation in the following twelve from the reference date.

The hedging amount for impairment shall be calculated according to whether or not there has been a significant increase in the credit risk since initial recognition and whether or not default has occurred. Accordingly, impairment hedging shall be equal to:

- The expected twelve-month credit losses when the risk of default has not significantly increased since initial recognition.
- The lifetime expected credit losses if the risk of default has significantly increased since initial recognition.
- Expected credit losses when default has occurred.

Financial instruments are grouped into three categories based on the impairment method applied, in accordance with the following structure:

- Stage 1 – Normal risk: those transactions the credit risk of which has not significantly increased since initial recognition. Impairment hedging shall be equal to the twelve-month expected credit losses. Interest revenue shall be calculated applying the effective interest rate to the gross carrying amount of the transaction.
- Stage 2 – Normal risk under special surveillance: those transactions the credit risk of which has significantly increased since initial recognition, but without default. Impairment hedging shall be equal to the lifetime expected credit losses of the transaction. Interest revenue shall be calculated applying the effective interest rate to the gross carrying amount of the transaction.
- Stage 3 – Non-performing: credit-impaired transactions, i.e. there has been default. Hedging shall be equal to the expected credit losses. Interest revenue shall be calculated by applying the effective interest rate at amortised cost (i.e. adjusted for an impairment allowance) of the financial instrument.

The measurement of whether or not there has been any significant increase in credit risk must be based on reasonable and supportable information that is available free of charge or disproportionate effort, which shall indicate the credit risk increases since initial recognition and must reflect historical, actual and forward-looking information.

The definitions established to measure the significant credit risk are in keeping with the following criteria:

- Adverse changes in the financial situation, such as a significant increase in debt levels, as well as significant increases in debt service ratios.
- Significant falls in turnover or, in recurring cash flows.
- Significant narrowing of operating margins.
- Significant changes in the cost of credit risk, due to changes in this risk subsequent to initial recognition.
- A real or expected reduction of the internal or external credit rating of the operation or of the owner thereof.
- Adverse changes in the economy, in market conditions or worsening of the operation owner’s financing terms.
- Business slowdown or unfavorable trends in the owner's operations, which may cause a significant change in their ability to meet their payment obligations.
- For operations with real guarantee, significant worsening of the relationship between the risk amount and the value of the guarantee.
- Significant increases in the credit risk of other operations of the same owner.

In any case, Stage 2 is considered with respect to instruments in which any of the following circumstances occur:

- Defaults of over 30 days.
- Financial instruments that are subject to special surveillance by the risk units because they show negative signs in their credit quality, although there is no objective evidence of impairment.
- Refinances or restructuring operations that do not show impairment evidence.

Method to calculate expected losses

The Bank has decided to continue using the practical solutions to calculate its expected portfolio losses in accordance with the requirements set forth in Circular 4/2017.

The measurement process for possible impairment losses for these instruments that involve the risk of insolvency for obligors (credit risk) is done:

- Individually, for all debt instruments classified as doubtful risks and which are significant by exceeding a certain threshold or for which specific information from the borrower that allows carrying out its evaluation is available.
- Collectively, for operations classified as normal risk, by applying the alternative solutions contained in Appendix 9 to Circular 4/2017, calculated on the bases of the parameters established by the Banco de España based on sector information and its accrued experience.

The amount for impairment losses, estimated in accordance with the criteria set forth above, are registered in the headings “Impairment losses or reversals on financial assets not at fair value through profit or loss – Financial assets at amortised cost”.

2.3.2. Debt instruments classified as financial assets at fair value through other comprehensive income

The amount of the impairment losses on debt instruments included in the portfolio of financial assets at fair value through other comprehensive income is determined on the basis of the criteria described in section 2.3.1 above for debt instruments carried at amortised cost, and is recognised in “Other Comprehensive Income - Items that May Be Reclassified to Profit or Loss - Fair Value Changes of Debt Instruments Measured at Fair Value through Other Comprehensive Income”.

The amount of any impairment losses on equity instruments included in the portfolio of financial assets at fair value through other comprehensive income is the positive difference between their acquisition cost and their fair value less any impairment loss previously recognised in the statement of profit or loss. Any impairment losses must be recognised under “Other Comprehensive Income - Items that Will not Be Reclassified to Profit or Loss - Fair Value Changes of Equity Instruments Measured at Fair Value through Other Comprehensive Income”.

2.3.3. Investments in subsidiaries, joint ventures and associates

Impairment losses on investments in subsidiaries, joint ventures and associates that, for the purposes of the preparation of these financial statements, are not considered to be “financial instruments, are estimated and accounted for as follows: when, in accordance with Circular 4/2017, there is evidence of impairment of these investments, the amount of the impairment loss will be estimated as the negative difference between the recoverable amount of the investment (calculated as the higher of fair value of the investment less the estimated costs of disposal and value in use; value in use is defined as the present value of the cash flows expected to be received from the investment in the form of dividends and the cash flows relating to its disposal) and its carrying amount. Impairment losses on these investments and any reversals of such impairment losses are recognised with a charge or credit, respectively, to “Impairment or Reversal of Impairment of Investments in Subsidiaries, Joint Ventures or Associates” in the Income Statements.

2.4. Transfers and derecognition of financial assets and liabilities

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

- If the Bank transfers substantially all the risks and rewards of the transferred assets to third parties -unconditional sale of financial assets, sale of financial assets with a repurchase agreement at its fair value at the repurchase date, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitization of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to new holders and other similar cases-, the transferred financial asset is derecognized and any rights or obligations retained or created in the transfer are recognized simultaneously.

It is considered that the Bank substantially transfers the risks and benefits if the transferred risks and benefits represent the majority of the total risk of the transferred assets.

- If the Bank retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, securitization of financial assets in which a subordinated debt or another type of credit enhancement is retained that absorbs substantially all the credit losses on the securitized assets, and other similar cases-, the transferred financial asset is not derecognized and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognized, without offsetting:
    - An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortized cost, or, if the aforementioned requirements for classification of other financial liabilities at fair value through profit or loss are met, at fair value, in accordance with the aforementioned criteria for this type of financial liability (see Note 2.2.4).
    - The income from the transferred financial asset not derecognized and any expense incurred on the new financial liability.
- If the Bank neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitization of financial assets in which the transferor retains a subordinated debt or another type of credit enhancement for a portion of the transferred asset, and other similar cases- the following distinction is made:
    - If the transferor does not retain control, the transferred financial asset is derecognized and any right or obligation retained or created in the transfer is recognized.
    - If the transferor retains control, it continues to recognize the transferred financial asset in the balance sheet for an amount equal to its exposure to changes in value and recognizes a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognized when the cash flows they generate have been extinguished or when substantially all the significant inherent risks and rewards have been transferred to third parties.

Notes 27.2 and 27.4 contain a summary of the main circumstances of the principal transfers of assets outstanding at 2018 and 2017 years-end which did not lead to the derecognition of the related assets (securities lending transactions and repurchase agreements under non-optional repurchase agreements).

2.5. Reclassification between financial instrument portfolios

These occur only and exclusively when there is a change in the business model that manages financial assets, in accordance with the regulations in force. This reclassification is done prospectively on the date of reclassification, without it being appropriate to state any gains, losses or interests previously recognised again. Generally, the business model is not changed very often.

2.6. Hedge accounting and mitigation of risk

The Bank uses financial derivatives as part of its strategy to reduce its exposure to interest rate. When these transactions meet the requirements stipulated in the regulation, they qualify for hedge accounting.

When the Bank designates a transaction as a hedge it does so upon initial recognition of the transactions and documents it appropriately. The hedge accounting documentation includes identification of the hedged item(s) and the hedging instrument(s), the nature of the risk to be hedged and the criteria or methods used by the Bank to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

The Bank only applies hedge accounting for hedges that are considered highly effective over their entire lives. A hedge is considered to be highly effective if, during its expected life, the changes in fair value or cash flows of the hedged item that are attributable to the risk hedged in the hedging of the financial instrument(s) are almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s).

To measure the effectiveness of hedges defined as such, the Bank analyses whether, from the beginning to the end of the term defined for the hedge, the Bank can expect, prospectively, that the changes in fair value or cash flows of the hedged item that are attributable to the hedged risk will be almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item.

The hedging operations carried out by the Bank are classified under the category of fair value hedges. These cover exposure to changes in the fair value of financial assets and liabilities or firm commitments not yet recognized, or an identified portion of such assets, liabilities or commitments, attributable to a particular risk and whenever they affect to the profit and loss account.

In relation to financial instruments designated as hedged items and hedge accounting in fair value hedges such as those made by the Bank, the differences produced at fair value, both in the hedging elements and in the hedged items (in this case, those associated with the hedged risk), are recognized directly in the "Gains or losses resulting from the hedge accounting, net" in the income statement (see Note 33).

The Bank discontinues hedge accounting when the hedging instrument expires or is sold, when the hedge no longer meets the requirements for hedge accounting or the designation as a hedge is revoked.

When, as explained in the preceding paragraph, hedge accounting is discontinued for a fair value hedge, in the case of hedged items carried at amortized cost, the value adjustments made as a result of the hedge accounting described above are recognized in the income statement through maturity of the hedged items, using the effective interest rate recalculated as at the date of discontinuation of hedge accounting.

Note 9 details the nature of the main positions hedged by the Bank and the financial hedging instruments used.

2.7. Foreign currency transactions

2.7.1. Functional currency

The functional and reporting currency of the Bank is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in “foreign currency”.

The detail, by currency and item, of the equivalent value in thousands of euros of the main asset and liability balances denominated in foreign currencies in the balance sheets at 31 December 2018 and 2017 is as follows:

Nature of Foreign Currency Balances:	Equivalent Value in Thousands of Euros (*) 2018 Assets	2018 Liabilities	2017 Assets	2017 Liabilities
Amount in US Dollars-				
Cash	58,538	-	39,865	-
Financial assets and liabilities held for trading	277	279	12,927	642
Financial assets at fair value through other comprehensive income	-	-	34,560	-
Demand deposits and financial assets at amortised cost	322,460	-	298,947	-
Financial liabilities at amortized cost	-	1,404,522	-	1,316,105
Other assets and liabilities	-	-	1,334	1,334
	381,275	1,404,801	387,633	1,318,081
Balances in Japanese yen-				
Cash	888	-	610	-
Demand deposits and financial assets at amortised cost	47,593	-	35,042	-
Financial liabilities at amortized cost	-	163,946	-	234,938
	48,481	163,946	35,652	234,938
Balances in pounds sterling-				
Cash	33,118	-	27,217	-
Financial assets/liabilities held for trading	-	-	278	140
Demand deposit and financial assets at amortised cost	36,450	-	37,121	-
Financial liabilities at amortized cost	-	182,668	-	87,867
Other assets and liabilities	102	126	95	184
	69,670	182,794	64,711	88,191
Balances in Swiss francs-				
Cash	2,244	-	3,900	-
Demand deposit and financial assets at amortised cost	5,164	-	5,117	-
Financial liabilities at amortized cost	-	35,185	-	53,369
Other assets and liabilities	-	-	-	8
	7,408	35,185	9,017	53,377
Balances in Norwegian krone-				
Cash	1,028	-	789	-
Demand deposit and financial assets at amortised cost	3,336	-	2,460	-
Financial liabilities at amortized cost	-	11,529	-	15,815
	4,364	11,529	3,249	15,815
Balances in Swedish krone-				
Cash	654	-	584	-
Demand deposit and financial assets at amortised cost	8,764	-	1,786	-
Financial liabilities at amortized cost	-	24,662	-	19,484
	9,418	24,662	2,370	19,484
Balances in other currencies-				
Cash	7,216	-	7,375	-
Demand deposits and loans and receivables	21,252	-	25,698	-
Financial liabilities at amortized cost	-	54,336	-	53,081
	28,468	54,336	33,073	53,081
Total foreign currency balances	**549,084**	**1,877,253**	**535,705**	**1,782,967**

(*) Equivalent value calculated by applying the exchange rates at 31 December 2018 and 2017 respectively.

In addition to the currency positions recognized in the balance sheets at 31 December 2018 and 2017 shown in the preceding table, the Bank recognized various currency derivatives and forward foreign currency contracts which are used to manage the exchange rate risk to which it is exposed and which should be considered together with the balance sheets positions for a correct understanding of the Bank's exposure to such risks (see Note 23).

2.7.2. Translation of foreign currency balances

Translation of foreign currency to the functional currency: foreign currency transactions performed by Bank companies are initially recognized in the financial statements at the equivalent value in their functional currencies, translated using the exchange rates prevailing at the transaction date. Subsequently, the following rules are applied:

- Monetary assets and liabilities are translated at the closing rate, which is taken to be the average spot exchange rate at the date of the financial statements.
- Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.
- Non-monetary items measured at fair value are translated to the functional currency at the exchange rate at the date when the fair value was determined.
- Incomes and expenses are translated at the exchange rate prevailing at the transaction date.

2.7.3. Exchange rates

The exchange rates used by the Bank in translating the foreign currency balances to euros for the purpose of preparing the financial statements, taking into account the methods mentioned above, were those published by the European Central Bank.

2.7.4. Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances, in accordance with the aforementioned methods, to the Bank's functional currency are generally recognized at their net amount under "Exchange Differences, Net" in the income statement, except for exchange differences arising on financial instruments designated at fair value through profit or loss, which are recognized, without distinguishing them from other changes in the instruments' fair value, under "Gains or Losses on Financial Assets and Liabilities Designated at Fair Value through Profit or loss, Net" in the income statement, according to the category in which the instruments are classified.

However, exchange differences arising on non-monetary items measured at fair value through equity are recognized, where appropriate, in equity under "Accumulated Other Comprehensive Income – Items that May Be Reclassified to Profit or Loss" in the balance sheet until they are realized. Exchange differences recognized in the Bank's equity are taken to the income statement when realized.

2.8. Recognition of income and expenses

The most significant accounting criteria used by the Bank to recognize its income and expenses are summarized as follows:

2.8.1. Interest income, interest expenses, dividends and similar items

Interest income, interest expenses and similar items are generally recognized on an accrual basis using the effective interest method. Dividends received from other companies, are recognized as income when the Bank's right to receive them arises.

2.8.2. Commissions, fees and similar items

Fee and commission income and expenses that are not to be included in the calculation of the effective interest rate of transactions and/or are not included in the acquisition cost of financial assets or liabilities other than those classified as at fair value through profit or loss are recognized in the income statement using criteria that vary according to their nature. The main criteria are as follows:

- The ones relating to the acquisition of financial assets and liabilities measured at fair value through profit or loss are recognized in the income statement when collected or paid.
- Those arising from transactions or services that are performed over a period of time such as fee and commission income for securities depository services are recognized in the income statement over the life of these transactions or services.
- Those relating to a single act are recognized in the income statement when the single act is carried out.

2.8.3. Non-finance income and expenses

These are recognized for accounting purposes on an accrual basis.

2.9. Offsetting

Asset and liability balances are offset, i.e. reported in the balance sheet at their net amount, when, and only when, they arise from transactions in for which the Bank currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

For these purposes, the presentation in these financial statements, in accordance with Circular 4/2017, of financial assets net of impairment losses or valuation adjustments is not considered to be offsetting.

2.10. Financial guarantees and provisions for financial guarantees

"Financial guarantees" are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees, irrevocable documentary credits issued or confirmed by the Bank, etc.

In accordance with the Circular 4/2017 the financial guarantees provided by the Bank are treated as financial instruments.

Financial guarantees provided by the Bank, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortized cost (described in Note 2.3.1 above).

The provisions for financial guarantees are recognized under "Provisions - Provisions for Contingent Liabilities and Commitments" on the liability side of the balance sheet (see Note 16). These provisions are recognized and reversed with a charge or credit, respectively, to "Provisions (Net)" in the income statement.

2.11. Staff costs

2.11.1. Short-term remuneration

Short-term employee remuneration consists of monetary and non-monetary remuneration such as wages, salaries and social security contributions earned in the year and paid or payable to employees in the twelve months following the end of the reporting period.

Short-term employee remuneration is generally recognized as staff costs in the income statement for the period in which the employees have rendered their services. It is measured at the undiscounted amount payable for the services received, and it is recognized while the employees render their services at the Bank, as an accrued expense after deducting any amounts already paid.

2.11.2. Post-employment obligations

Under the Collective Agreement currently in force and some labour intern agreement, the Bank is required to supplement the social security benefits accruing to its employees or their beneficiary right holders in the event of retirement, disability, death of spouse or death of parent.

The Bank's post-employment obligations to its employees are deemed to be "defined contribution plans" when the Bank makes pre-determined contributions to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as "defined benefit plans".

The Bank has set up an external fund known as the "Cecabank Employees' Pension Plan", which is managed by Caser Pensiones, Entidad Gestora de Fondos de Pensiones, S.A; at the same time, Cecabank has several insurance policies suitable to externalize agreement due to pension obligations.

The external fund, in turn, comprises three subplans: a defined benefit plan (for employees hired by the Bank prior to 30 May 1986 who opted not to convert their benefits into defined contribution benefits and for early retirees) and two defined contribution retirement benefit subplans (for employees hired by the CECA prior to 30 May 1986 who opted to convert their benefits into defined contribution benefits, as described below, for employees hired by the Ceca or Bank after 29 May 1986, and for early retirees in this group). The pension plan also includes the obligations to the beneficiaries of the benefits.

In 2010, the Control Committee of the CECA Employees' Pension Plan, pursuant to the obligations previously acquired, resolved to take out an insurance policy to cover the supplementary vested pension income payable to the beneficiaries of the pension plan of defined benefit. The policy is in line with the benefits payable to the group of beneficiaries of the pension plan in order to ensure these obligations are met.

Note 35 to these financial statements presents additional information on these obligations with regard to reconciliations, sensitivities and other disclosures required by the legislation applicable to the Bank.

At 31 December 2018, the Bank's total accrued pension obligations to current and retired employees amounted to EUR 171,878 thousand (31 December 2017: EUR 188,352 thousand). These obligations are covered by the aforementioned external pension fund and insurance policies, the fair value of which was EUR 180,067 thousand at 31 December 2018 (31 December 2017: EUR 195,859 thousand) and, therefore, the Bank recognized a "Net Asset for Pensions" of EUR 8,189 thousand under "Other Assets" in the accompanying balance sheet as at 31 December 2018 (31 December 2017: EUR 7,507 thousand) (see Notes 14.1 and 35).

Recognition of defined benefit post-employment obligations

The accounting treatment of the defined benefit obligations is as follows:

a) The legal obligations assumed by the Bank are taken into consideration according to the formal terms and conditions of the plans.

   b) The present value of the legal obligations is calculated at the reporting date by a qualified actuary, together with the fair value estimates of the plan assets.

   c) The fair value of the plan assets, which, pursuant to the requirements established in the applicable legislation, meet this definition at the reporting date, is deducted from the present value of the obligations.

   d) If the figure obtained in c) above is positive, it is recognized as a provision for defined benefit pension funds.

   e) If the figure obtained in c) above is negative, it is recognized as "other assets". The Bank measures, where appropriate, the recognized asset at the lower of the following two values:

      i) The figure obtained in c) above, in absolute terms.

      ii) The present value of the cash flows available to the Bank, in the form of plan redemptions or reductions in future contributions to the plan.

   f) Any changes in the recognized provision are recognized when they occur in line with d) above (or, where appropriate, the asset according to c) above) as follows:

      i) In the income statement: the cost of the services rendered by the employees, those referring to both the year in question and prior years not recognized in those years, the net interest on the provision, and the gain or loss arising upon settlement. When these amounts are to form part of the cost of an asset pursuant to applicable legislation, these amounts are recognized additionally as “other operating income”.

      ii) In the statement of changes in equity: the new measurements of the provision as a result of the actuarial gains and losses, of the return on any plan assets not included in the net interest on the provision, and changes in the present value of the asset as a result of the changes in the present of the cash flows available to the entity, which are not included in the net interest on the provision. The amounts recognized in the statement of changes in equity should not be reclassified to the income statement in a future year.

As regards the preceding paragraph, it should be noted that due to application of the regulatory changes in the legislation applicable to the Bank contained in Bank of Spain Circular 5/2013, since 2013, the actuarial gains and losses arising on the valuation of the defined benefit pension obligations have been recognized by the Bank in the period in which they arise with a charge or credit, as applicable, to “Accumulated Other Comprehensive Income – Items that Will Not Be Reclassified to Profit or Loss” in the accompanying balance sheets.

The defined contribution obligations are generally recognized at the amount of the contributions made by the Bank in the year in exchange for the services rendered by employees in the same period, and are recognized as an expense for the year. In 2018 the portion of the accrued expense for the contributions to the external pension fund relating to defined contribution obligations amounted to EUR 698 thousand (2017: EUR 898 thousand), and this amount was recognized under “Administrative Expenses - Staff Costs” in the income statement. In addition, in 2018 EUR 3 thousand were reimbursed relating to the insurance policy of an employee who left the Bank’s employ(2017: EUR 133 thousands) (see Note 35).

Furthermore, contributions to the pension plan in excess of the current legal and tax ceilings are covered by two insurance policies taken out with Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. (“Caser”). No accrual and payment of any premium occurred in 2018.

Additionally, the premiums on these policies and on other insurance policies covering pension obligations and other obligations to employees totalled EUR 181 thousand (2017: EUR 427 thousand), and this amount was recognized under “Administrative Expenses - Staff Costs” in the income statement (see Note 35).

2.11.3. Other long-term benefits

2.11.3.1. Early retirements

Through several agreements entered into in previous years by the Bank and by CECA (to which the Bank was subrogated by virtue of the spin-off of CECA's activity to the Bank as indicated in Note 1.1 above) and the Workplace Trade Union Branch and the representatives of the Works Council, various pre-retirement offers were made to the employees. The following paragraphs contain a summary of the main features of these agreements:

Pre-retirement agreements prior to 2013

On 7 April 2011, an agreement was entered into between the CECA, the Workplace Trade Union Branch and the representatives of the Workers' Committee, under which a Pre-Retirement Plan was established for all employees who at 31 December 2011 were at least 55 years of age and had been in the CECA employ for at least ten years. The general registration period for employees wishing to participate in this plan ended on 13 May 2011. As a result of the spin-off mentioned in section 1.1, the Bank was subrogated to these obligations.

25 June 2012, an agreement additional to the one mentioned in the previous paragraph was entered into between the entity, the Workplace Trade Union Branch and the representatives of the Works Council, under which a Pre-Retirement Plan was established for all employees who at 31 December 2012 were at least 53 years of age and had been in the entity's employ for at least ten years. The general registration period for employees wishing to participate in this plan ended on 20 July 2012. This agreement also includes other measures such as termination benefits for the group of employees not included in the pre-retirement plans mentioned above (for which the deadline for participating was 30 September 2012), unpaid leave and reduced working hours (the deadline for participating was 30 October 2012).

Pre-retirement agreements in 2013

Also, on 29 October 2013, another agreement was entered into between the Bank, the Workplace Trade Union Branch and the representatives of the Works Council, to extend the agreement entered into on 25 June 2012 for a maximum of 129 employees who at 31 December 2013 were at least 50 years of age and had been in the entity's employ for at least ten years. The general registration period for employees wishing to participate in this plan ended on 12 November 2013. 54 employees availed themselves of this offer. The pre-retirements are taking effect between 1 December 2013 and 31 March 2014. The period of pre-retirement begins on the date of termination of the employment contract and ends on the date on which the employee reaches 63 years of age, with a limit of nine years from the pre-retirement date, whichever occurs first.

The amount receivable by the employee during pre-retirement is equal to 75% of his/her annual gross fixed remuneration while in employment, with a maximum annual benefit limit of EUR 150,000 and a minimum annual limit of EUR 27,119. At the discretion of the pre-retired employee, this benefit may be received either in a single lump sum payment or in 14 monthly payments up until the age established in the Agreement. In addition, regardless of the chosen form of payment, the employees who avail themselves of this offer are entitled to receive a gross incentive of EUR 16,000 in a single payment. Also, any employees who would have been paid a 25-year service bonus had they remained in the entity's employ until 31 March 2014 continue to be entitled to receive this bonus.

For the participants of pension sub-plans two and three integrated in ‘Cecabank employees Pensions plan, the Bank will continue to make contributions to the employee pension plan and the policies provided for in the insurance protocol relating to this plan, where appropriate, solely for retirement cover. The amount of this contribution will be the same as that made in the year immediately prior to the pre-retirement, and will be made until the employee reaches 63 years of age, with a limit of nine years from the pre-retirement date, whichever occurs first. In particular, the participants of sub-plan three will continue to be entitled to the contributions provided for in the Caser policy, for past service, until the age of 65. In the case of the employees who are participants in defined benefit sub-plan one, for retirement cover, the Bank will continue to make the contributions required to maintain coverage of the retirement benefit established by the Bank until the date on which pre-retirement benefits cease to be paid, and the benefits received in the twelve months prior to retirement. Alternatively, participants in sub-plan one who take pre-retirement pursuant to the pre-retirement plan may transfer their consolidated rights in the plan at the pre-retirement date to sub-plan three and convert the benefit regime into a defined contribution regime. For these participants, contributions are not payable to the Caser policy provided for in the insurance protocol of the Bank's Employees Pension Plan.

Social Security Special Agreement payments are payable by the employees, although the Bank will pay these amounts into the employees' salary until they meet the established age requirements and limits. The Special Agreement will be entered into at the employees' maximum contribution rate on the date immediately preceding the retirement date, with a maximum limit of the contribution base that would have been applicable to the employees had they remained in the Bank's employ.

Pre-retirement agreements in 2015

On 18 December 2015, the Board of Directors of the Bank approved a formal pre-retirement plan for certain employees of the Bank who met certain requirements, and this fact was communicated to all the employees on 23 December 2015 by the Works Council.

This plan was formalized in a collective agreement signed in 2016 between the Bank, the Workplace Trade Union Branch and the representatives of the Works Council, using as a basis the pre-retirement plan of 29 October 2013, which established a three-year period (2016-2018) for pre-retirements to take place. Employees aged 56 or over prior to 31 December 2018 with at least ten years' service at the date of departure from the Bank can avail themselves of the plan.

The amount receivable by the employee during pre-retirement is equal to 75% of his/her annual gross fixed remuneration while in employment, with a maximum annual benefit limit of EUR 150,000 and a minimum annual limit of EUR 27,119. At the discretion of the pre-retired employee, this benefit may be received either in a single lump sum payment or in 14 monthly payments up until the age established in the Agreement.

With regard to the accounting criteria applied to these aforementioned pre-retirement obligations, it should be noted that they are the same as those explained in Note 2.11.2 for the defined benefit post-employment obligations, except for the fact that the actuarial gains and losses are recognized directly in the Bank's income statement in the year in which they are disclosed.

The obligations in respect of future salaries, future social security costs and study aids relating to early retirees corresponding to commitments given in the preceding paragraphs as well as the obligations for future contributions to the Pension Plan (all of which were considered as defined benefit obligations) were covered by an internal provision amounting to EUR 49,710 thousand (EUR 63,229 thousand at 31 December 2017), which was recognized under “Provisions - Other long-term employee benefits” in the balance sheet (see Notes 16 and 35) and related to early retirement obligations incurred as a result of the aforementioned Agreement dated 7 April 2011, 25 June 2012 and 29 October 2013 and 18 December 2015. At 31 December 2018 and 2017 this provision covered the full amount of the Bank's early retirement obligations at those dates.

Note 35 to these notes to the financial statements includes additional information relating to these obligations.

2.11.3.2. Death and disability

The commitments assumed by the Bank for death or disability of current employees for the period they remain active are included in the benefits covered by the aforementioned external pension fund.

2.11.3.3. Long-service bonuses

The Bank has undertaken to pay a bonus to employees reaching 25 years of service at the Bank.

The amount paid in this connection at 2018 year-end was approximately EUR 9 thousand (2017 year-end: EUR 20 thousand) and is recognized under “Administrative Expenses - Staff Costs” in the accompanying income statement.

2.11.4. Termination benefits

Any termination benefits are recognized as a staff cost only when the Entity is demonstrably committed to terminating the employment relationship with an employee or group of employees.

The termination benefit expense charged to profit or loss in 2018, amounting to EUR 785 thousand, is recognized under “Administrative Expenses - Staff Costs” in the statement of profit or loss (see Note 35). At 31 December 2017, no expense was recognized in this connection.

Also, the Bank has agreements with some of its executives and/or directors to pay them certain benefits in the event that they are terminated without just cause. The amount of the benefit, which in any case would not have a material effect on the Bank, would be charged to the income statement when the decision to terminate the employment of the executive or director was made. The liability recognized for these purposes was included under “Other Liabilities” in the balance sheet.

Under current legislation, the Bank is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken. The accompanying financial statements do not include any provision in this connection, since no situations of this nature are expected to arise.

2.11.5. Loans to employees

Under the collective labour agreement in force and the additional agreements entered into in 2008 and 2016 with the Bank's employees, employees are entitled to apply for mortgage loans from the Bank for a maximum period of 40 years and a variable interest rate, which will remain fixed during each natural semester.

Under the applicable industry collective labour agreement and pursuant to collective agreements reached by the Bank implementing it, employees of the Bank may, in specific cases, apply for interest free advances and other “welfare” loans or loans for the expansion of their residence, with a repayment period of 10 and 15 years, respectively, at the Euribor interest rate.

In the event of exceptional circumstances requiring an employee of the Bank to apply for a type of loan that does not fully or partially comply with the regulations stipulated in the industry collective labour agreement, or its implementing regulations, the employee may apply for the loan indicating the exceptional circumstances.

These loans are recognized at amortized cost under “financial assets at amortized cost - Loans and Advances to Customers” in the balance sheet.

2.12. Income tax

The income tax expense is recognized in the income statement, except when it results from a transaction recognized directly in the equity, in which case the income tax is also recognized in the Bank's equity.

The current income tax expense is calculated as the tax payable with respect to the taxable profit for the year, adjusted by the amount of the changes in the year in the assets and liabilities (deferred taxes) recognized as a result of temporary differences and tax credit and tax loss carry forwards (see Note 20).

The Bank considers that there is a temporary difference when there is a difference between the carrying amount of an asset or liability and its tax base expected to reverse in the future. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. A taxable temporary difference is one that will generate a future obligation for the Bank to make a payment to the related tax authorities. A deductible temporary difference is one that will generate a right for the Bank to a refund or a reduction in its tax charge in the future.

Tax credit and tax loss carry forwards are amounts that, after performance of the activity or obtainment of the profit or loss giving entitlement to them, are not used for tax purposes in the related tax return until the conditions for doing so established in the tax regulations are met and the Bank considers it probable that they will be used in future periods.

Current tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities within 12 months from the balance sheet date. Deferred tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities in over 12 months from the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences. However, deferred tax liabilities arising from the initial recognition of goodwill are not recognized.

The Bank only recognizes deferred tax assets arising from deductible temporary differences and from tax credit and for tax loss carry forwards when the following conditions are met:

- If it is considered probable that the Bank will obtain sufficient future taxable profit against which the deferred tax assets can be utilised; or they are deferred tax assets that the Bank might in the future have the right to convert into credits receivable from the tax authorities pursuant to Article 130 of Spanish Income Tax Law 27/2014, of 27 November (called "monetisable tax assets"); and
- In the case of any deferred tax assets arising from tax loss carryforwards, the tax losses result from identifiable causes which are unlikely to recur.

No deferred tax assets or liabilities are recognized if they arise from the initial recognition of an asset or liability (except in the case of a business combination) that at the time of recognition affects neither accounting profit nor taxable profit.

The deferred tax assets and liabilities recognized are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

The Bank files consolidated tax returns pursuant to Chapter VI of Title VII of Spanish Income Tax Law 27/2014, of 27 November, as part of tax group 0508/12, the parent of which is CECA. For each entity that files consolidated tax returns, the Group recognises the income tax expense that the entity would have had to pay if it had filed an individual tax return, adjusted for the tax losses generated by each entity from which other Group entities benefit, taking into consideration the consolidated tax adjustments to be made.

2.13. Tangible assets

2.13.1. Property, plant and equipment for own use

Property, plant and equipment for own use includes the assets that are held by the Bank for present or future administrative purposes other than those of welfare projects, or for the production or supply of goods and services and which are expected to be used for more than one year. Property, plant and equipment for own use is recognized at acquisition cost in the balance sheet as it is defined in the Circular 4/2017, less:

- The related accumulated depreciation, and
- Any estimated impairment losses (net carrying amount higher than recoverable amount).

Depreciation is calculated by the straight-line method on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The annual provisions of tangible asset depreciation charge is recognized under “Depreciation and Amortization” in the income statement and is calculated basically using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Property	2% to 4%
Furniture and office equipment	10% to 15%
Computer hardware	15% to 25%
Fixtures	8% to 12%
Transport equipment	16%

The Bank assesses at the reporting date whether there is any internal or external indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life must be re-estimated). When necessary, the carrying amount of property, plant and equipment for own use is reduced with a charge to “Impairment or Reversal of Impairment on Non-Financial Assets” in the income statement.

Similarly, if there is an indication of a recovery in the value of a previously impaired tangible asset, the Bank recognizes the reversal of the impairment loss recognized in prior periods with the related credit to “Impairment or Reversal of Impairment on Non-Financial Assets” in the income statement and adjusts the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognized in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least once a year with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognized in the income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognized as an expense under “Administrative Expenses – Other General Administrative Expenses” in the income statement in the year in which they are incurred.

Assets for own use that cease to be used for that purpose and for which management has prepared a sales plan that is expected to be executed within twelve months and meet the other requirements established in Bank of Spain Circular 4/2017 are classified as non-current assets held for sale and begin to be measured in accordance with the criteria indicated in Note 2.16.

2.13.2. Investment property

"Tangible Assets - Investment Property" in the balance sheet reflects the net values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

The criteria used to recognize the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognize any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use (see Note 2.13.1).

2.14. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the Bank. Only intangible assets whose cost can be estimated reasonably objectively and from which the Bank considers it probable that future economic benefits will be generated are recognized.

Intangible assets are recognized initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortization and any accumulated impairment losses.

The annual intangible asset amortisation charge is recognized under "Depreciation and Amortisation Charge" in the income statement.

2.14.1. Other intangible assets

Intangible assets other than goodwill are recognized in the balance sheet at acquisition or production cost, less the related accumulated amortization and any accumulated impairment losses.

"Intangible Assets - Other Intangible Assets" includes, primarily, the acquisition cost, net of accumulated amortisation and when applicable impairment.

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives, which range from three to ten years for computer software, depending on the asset concerned.

For their part, the management rights of the depository business recognized as intangible assets are amortised over the term of the contracts in which they are acquired, using the straight-line method or a diminishing balance method, depending on the estimated revenue associated with these contracts over time.

The Bank assesses at the reporting date whether there is any internal or external indication that an intangible asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future amortization charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated). This reduction of the carrying amount of intangible assets is recognized, if necessary, with a charge to "Impairment or Reversal of Impairment on Non-Financial Assets" in the income statement. The criteria used to recognize the impairment losses on these assets and, where applicable, the reversal of impairment losses recognized in prior years are similar to those used for property, plant and equipment for own use (see Note 2.13.1).

2.15. Provisions and contingent liabilities

The Bank's financial statements include all the material provisions, if any, required to cover certain risks to which the Bank is exposed as a result of its business activity and which are certain as to their nature but uncertain as to their amount and/or timing. Contingent liabilities are not recognized in the financial statements, but rather are disclosed, if there.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed its case and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognized. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

The provisions considered necessary pursuant to the foregoing criteria and their eventual reversal, should the reasons for their recognition disappear, are recognized with a charge or credit, respectively, to "Provisions (net)" in the income statement.

2.15.1. Litigation and/ or claims in process

At the end of 2018 certain litigation and claims were in process against the Bank arising from the ordinary course of its operations. The Bank's legal advisers and directors consider that the outcome of the litigation and claims will not have a material effect on the financial statements for the years in which they are settled.

2.16. Non-current assets and Disposal Groups Classified as Held for Sale

"Non-Current Assets Held for Sale and Disposal Groups Classified as Held for Sale" in the balance sheet includes the carrying amount of items - individual items, disposal groups or items forming part of a business unit earmarked for disposal ("discontinued operations") - which, because of their nature, are estimated to have a realization or recovery period exceeding one year, but are earmarked for disposal by the Bank and whose sale in their present condition is highly probable to be completed within one year from the date of the financial statements.

Investments in associates or joint ventures that meet the requirements set forth in the foregoing paragraph are also considered to be non-current assets held for sale.

Therefore, the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably, be recovered through the proceeds from their disposal rather than from continuing use.

Specifically, property or other non-current assets received by the Bank as total or partial settlement of its debtors' payment obligations to it are deemed to be non-current assets held for sale, unless the Bank has decided use them and classify them as investment property (see Note 2.13.2).

In general, non-current assets held for sale are measured at the lower of their carrying amount calculated as at the classification date and their fair value less estimated costs to sell. Tangible and intangible assets that are depreciable and amortizable by nature are not depreciated or amortized during the time they remain classified in this category.

If the carrying amount of the assets exceeds their fair value less costs to sell, the Bank adjusts the carrying amount of the assets by the amount of the excess with a charge to "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations" in the income statement. If the fair value of such assets subsequently increases, the Bank reverses the losses previously recognized and increases the carrying amount of the assets without exceeding the carrying amount prior to the impairment, with a credit to "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations" in the income statement.

The gains or losses arising on the sale of non-current assets held for sale are presented under "Profit or Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations" in the income statement.

Despite the foregoing, financial assets, assets arising from remuneration to employees and any deferred tax assets that are part of a disposal group or of a discontinued operation are not measured as described in the preceding paragraphs, but rather in accordance with the accounting policies and rules applicable to these items, which were explained in previous sections of Note 2.

2.17. Cash flow statements

The following terms are used in the cash flow statements with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities. Operating activities also include interest paid on any financing received, even if this financing is considered to be financing activity. Activities performed with the various financial instrument categories detailed in Note 2.2.4 above are classified, for the purpose of this statement, as operating activities.
- Investing activities: the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments, non-current assets held for sale and associated liabilities, equity instruments classified as financial assets at fair value through other comprehensive income which are strategic investments if any.
- Financing activities: includes the cash flows from activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

For cash flow statement preparation purposes, the balance of “Cash, Cash Balances at Central Banks and other demand deposits” on the asset side of the balance sheet, disregarding any impairment losses, was considered to be “cash and cash equivalents”.

2.18. Statement of changes in equity

The statement of changes in equity presented in these financial statements shows the total changes therein in equity during the year. This information is disclosed to turn in two statements: the statement of comprehensive income and the statement of changes in equity. The following explains the main features of the information contained in both parts of the statement:

2.18.1. Statement of recognized income and expense

The statement of recognized income and expense presents the income and expenses generated by the Bank as a result of its business activity in the year, and a distinction is made between the income and expenses recognized in the income statement for the year and the other income and expenses recognized, in accordance with current regulations, directly in equity, making a distinction among the latter, in turn, between items that may be reclassified to the income statement, pursuant to applicable legislation, and those that may not.

Accordingly, this statement presents:

a) Profit for the year.

b) The net amount of income and expense recognized that will not be reclassified into income.

c) The net amount of income and expenses recognized that can be reclassified into income.

d) The total of income and expense recognized, calculated as the sum of (a+b+c).

Changes in income and expenses recognized in equity as items that can be reclassified to income are broken down as follows:

a) Valuation gains or losses taken to equity: includes the amount of the income, net of the expenses incurred in the year, recognized directly in equity. The amounts recognized in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of assets or liabilities or are reclassified to another line item.

b) Amounts transferred to the income statement: includes the amount of the revaluation gains and losses previously recognized in equity, albeit in the same year, which are recognized in the income statement.

c) Amount transferred to the initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognized in equity, albeit in the same year, which are recognized in the initial carrying amount of the assets or liabilities as a result of cash flow hedges.

d) Other reclassifications: includes the amount of the transfers made in the year between valuation adjustment items in accordance with current regulations.

The amounts of these items are presented gross, and the corresponding income tax is included in a separate line item both at the end of the items that may be reclassified to profit or loss and at the end of those that will not.

2.18.2. Statement of changes in total equity

The statement of changes in total equity presents all the changes in equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the equity items, and the changes in the year are grouped together on the basis of their nature into the following items:

a) Effects of corrections of errors and changes in accounting policies: this category includes the adjustments to equity arising as a result of the retrospective restatement of the financial statements, making a distinction between the adjustments that relate to changes in accounting policies and those relating to corrections of errors.

b) Total comprehensive income for the year: this category includes the amount of the line item with the same name in the statement of recognized income and expense relating to the same date.

c) Other changes in equity: includes the changes recognized directly in equity relating to increases and reductions in capital or other equity instruments (including the expenses incurred in such transactions), the distribution of dividends or shareholder remuneration, the reclassification of financial instruments from equity to liabilities or vice-versa, transfers among equity items which, due to their nature, were not included in other line items, increases or decreases in equity resulting from business combinations, share-based payments, and any other increase or decrease in equity that cannot be included in the aforementioned categories.

3. Distribution of the Bank's profit

The proposal for the distribution of the Bank's net profit for the year 2018, which the Board of Directors will propose to the General Shareholders' Meeting for approval, is as follows (the balances for the year 2017 are presented exclusively for comparative purposes):

	Thousands of Euros	
	2018	2017
Voluntary Reserve	42,541	54,914
Dividends	20,953	18,304
Net profit for the year	**63,494**	**73,218**

4. Remuneration of directors and senior executives

4.1. Remuneration of the Board of Directors

The members of the Bank's Board of Directors receive an attendance fee for attending meetings of the Board and its support committees, the detail of which for 2018 and 2017 is shown in the following table:

	Thousands of Euros	
	2018	2017
Aguirre Loaso, José Luis	-	14
Azuaga Moreno, Manuel	29	24
Cánovas Páez, Joaquín	2	18
Carbó Valverde, Santiago	52	37
García Lurueña, Francisco Javier	39	26
Gómez de Miguel, José Manuel	56	46
Iglesias Ruiz, Víctor Manuel	29	6
Massanell Lavilla, Antonio	-	18
Méndez Álvarez-Cedrón, José María	23	18
Motellón Garcia, Carmen	46	30
Pano Riera, Javier	10	-
Ruano Mochales, Jesús	29	22
Salaverría Monfort, Julia	56	41
Sarro Álvarez, María del Mar	43	41
Total	**414**	**341**

The aforementioned attendance fees for 2018 relating to the participation of an executive of Bankia, S.A. on the Board of Directors of Cecabank, S.A. amounted to EUR 31 thousand and were paid directly to that entity (2017: EUR 21 thousand).

Note 40 details the Bank's other balances with its directors and persons related to them.

4.2. Remuneration of senior executives and of members of the Board of Directors

For the purposes of the preparation of these financial statements, the Bank's senior executives were considered to be the members of the Management Committee, which comprised 8 members at 31 December 2018 and 2017.

The remuneration earned by the senior executives and the members of the Board of Directors in their capacity as executives of the Bank totalled EUR 2,465 thousand in 2018, of which EUR 2,301 thousand related to short-term remuneration for 2018, including the amount that will be paid by Phantom Shares (see note 35) and EUR 164 thousand related to post-employment benefits (EUR 2,827 thousand in 2017, of which EUR 2,545 thousand related to short-term remuneration and EUR 282 thousand to post-employment benefits).

At 31 December 2018, the vested pension rights of the senior executives and Board members in their capacity as Bank executives amounted to EUR 3,584 thousand (31 December 2017: EUR 3,057 thousand).

With regard to former members of the Entity's Board of Directors and senior executives (two people at 31 December 2018 and at 31 December 2017 three people), in 2018 they received EUR 754 thousand in pre-retirement benefits (2017: EUR 776 thousand). At 31 December 2018, these persons' vested rights amounted to EUR 118 thousand (2017: EUR 124 thousand). These amounts arose as a result of the Bank's obligations to the employees who in 2012 and 2011 availed themselves of the pre-retirement plans offered to employees who met certain objective conditions (see Note 2.11.3).

At 31 December 2018, there were pension commitments, similar obligations or other long term commitments assumed by the Bank with current or former members of the Board of Directors and senior executives amounting to EUR 1,102 thousand (1,757 thousand euros at 31 December 2017).

The Bank has taken out accident insurance for directors and third-party liability insurance for directors and senior executives under the customary terms and conditions for these insurance policies. The premium for 2018 amounted to EUR 145 thousand (2017: EUR 144 thousand).

Note 40 to these financial statements provides disclosures of the amounts of the demand deposits held with the Bank by senior executives and Board members and of the loans granted to them by the Bank.

4.3. Transparency obligations

Article 229 of the Consolidated Spanish Limited Liability Companies Law establishes that the directors must disclose any direct or indirect conflict they might have with the interests of the company in which they discharge their duties as directors.

On one occasion in 2018 a director of Cecabank, S.A. refrained from discussing and voting on an item on the agenda. Specifically, a Board member was absent during the discussion on the approval of a financial transaction at the Board of Directors meeting held on 28 May 2018.

In 2017 the Bank's directors, as defined in the Spanish Limited Liability Companies Law, notified the Board of Directors of three conflict situations, direct or indirect conflict of interest that they (or any persons related to them) might have with respect to the Bank.

5. Cash, Cash Balances at Central Banks and other demand deposits

The breakdown of the balance of "Cash, Cash Balances at Central Banks and other demand deposits" in the balances sheet at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Cash	199,015	94,860
Balances with the Bank of Spain (Note 1.10) (*)	3,046,432	2,468,451
Other demand deposits	101,630	93,469
	3,267,077	2,656,780

(*)This balance corresponds entirely to the balance in cash at the Bank of Spain.

Note 21 includes information on the fair value of these instruments at 31 December 2018 and 2017. Note 24 provides information on the liquidity risk associated with financial instruments, including information on the maturities of these assets.

The balance of "Cash, Cash Balances at Central Banks and other demand deposits" at 31 December 2018 and 2017 represents the maximum exposure to credit risk assumed by the Bank in relation to these instruments.

At 31 December 2018 and 2017, there were no assets with uncollected past-due amounts or impaired classified under "Cash, Cash Balances at Central Banks and other demand deposits".

6. Financial assets and liabilities at fair value through profit or loss

6.1. Financial instruments held for trading

6.1.1. Financial assets and liabilities held for trading - Breakdown

Following is a detail of the balances of "Financial Assets/Liabilities Held for Trading" in the balances sheets at 31 December 2018 and 2017:

	Thousands of Euros			
	Asset balances		Liability balances	
	2018	2017	2018	2017
Debt securities	752,696	825,886	-	-
Equity instruments	240,744	287,482	-	-
Trading derivatives-				
Derivatives traded in organized markets	94	122	755	46
OTC derivatives	926,849	1,031,280	966,268	1,145,995
Short positions	-	-	409,834	393,937
	1,920,383	2,144,770	1,376,857	1,539,978

Note 22 discloses information on the credit risk assumed by the Bank in relation to the financial assets, other than equity instruments, included in this category. In addition, Notes 23 and 24 include information on the market and liquidity risks, respectively, associated with the financial instruments included in this category.

Note 21 provides information on the fair value of the financial instruments included in this category. Note 26 includes information on the concentration of risk relating to the financial assets held for trading. Note 25 shows information on the exposure to interest rate risk.

6.1.2. Financial assets and liabilities held for trading - Trading derivatives

Following is a breakdown, by type of risk, of the fair value of the trading derivatives arranged by the Bank and of their notional amount (on the basis of which the future payments and collections on these derivatives are calculated) at 31 December 2018 and 2017:

	Thousands of Euros					
	2018			2017		
	Fair Value			Fair Value		
	Asset Balances	Liability Balances	Notional Amount	Asset Balances	Liability Balances	Notional Amount
Interest rate risk	877,672	927,813	28,874,217	945,520	1,032,588	41,777,855
Foreign currency risk	49,177	36,452	6,735,465	85,760	110,915	4,595,635
Share price risk	94	2,758	378,705	122	46	350,487
Credit risk	-	-	-	-	2,492	20,000
	926,943	967,023	35,988,387	1,031,402	1,146,041	46,743,977

The notional amount of the contracts entered into does not reflect the actual risk assumed by the Bank for these contracts, since the net position in these financial instruments is the result of offsetting and/or combining them and of offsetting and/or combining them with other asset or liability positions.

6.1.3. Financial liabilities held for trading - Short positions

The detail, by type of transaction, of the balance of this item in the balance sheets at 31 December 2018 and 2017, is as follows:

	Thousands of Euros	
	2018	2017
Classification:		
For securities lending-		
Equity instruments	11	-
Overdrafts on disposals-repurchase agreement		
Debt securities	409,823	393,937
	409,834	393,937

“Short Positions - Short Sales – Debt Instruments” in the foregoing table includes the fair value of the Bank’s debt instruments purchased under repurchase agreements and, therefore, under non-optional resale as such not recognized on the asset side of the balance sheet, which have been sold and will be repurchased by the Bank before maturity of the repurchase agreement in which they are used as collateral, in order for the Bank to return them to his owner at the maturity date.

6.2. Non trading financial asset mandatorily at fair value through profit or loss

The detail, by nature, of the financial assets included in "Non trading financial asset mandatorily at fair value through profit or loss" in the balance sheets at 31 December 2018 and 2017 is as follows:

	Thousand of Euros	
	2018	2017
Equity instruments	19,093	-
Debt securities	41,320	-
	60,413	-

Note 22 includes information on the Bank's exposure to credit risk at 31 December 2018 and 2017 associated with these financial instruments other than equity instruments .

Note 21 discloses information on the fair value of these financial instruments at 31 December 2018 and 2017. Note 23 provides information on the exposure to market risk of these financial instruments. Note 25 includes information about the exposure to interest rates.

Note 24 contains information on the liquidity risk associated with the financial instruments owned by the Bank at 31 December 2018 and 2017, including information on the terms to maturity at those dates of the financial assets included in this category.

Note 26 includes information on the concentration risk relating to these financial instruments at 31 December 2018 and 2017.

6.3. Financial assets and liabilities designated at fair value through profit or loss

This heading includes reverse repurchase agreements arranged by the Bank which are managed jointly with interest rate derivatives and financial instruments classified in the held-for-trading category.

The detail, by nature, of the financial assets included in "Financial assets and liabilities designated at fair value through profit or loss" in the balance sheets at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Loans and advances from credit institutions-		
Repurchase agreements with credit institutions	-	256,932
Valuation adjustments-		
Accrued interest	-	(66)
Valuation gains or losses	-	10
	-	(56)
	-	**256,876**
	-	**256,876**

The changes in 2018 with respect to 2017 were due to the amounts that matured in 2018.

Note 22 contains information on the Bank's exposure to credit risk associated with these financial instruments at 31 December 2018 and 2017.

Note 21 discloses information on the fair value of the financial instruments included at 31 December 2018 and 2017. Note 23 provides information on the market risk associated with these financial instruments and Note 25 contains information on interest rate risk.

Note 24 includes information on the liquidity risk associated with the financial instruments owned by the Bank at 31 December 2018 and 2017, which provides disclosures on the term to maturity at those dates of the financial assets included in this category.

Note 26 contains information on the concentration risk of these financial instruments at 31 December 2018 and 2017.

7. Financial assets at fair value through other comprehensive income

Following is a detail of the balances of "Financial assets at fair value through other comprehensive income" in the balance sheets at 31 December 2018 and 2017:

	Thousands of Euros	
	2018	**2017**
Debt securities-		
Spanish public sector securities	307,951	813,028
Of which:		
Treasury bills	-	150,266
Government debt securities	307,951	662,762
Securities of other Public agencies	953,081	557,832
Other securities	201,810	306,709
	1,462,842	1,677,569
Valuation adjustments-		
Accrued interest	8,476	19,408
Valuation gains or losses and other	(2,029)	37,670
Impairment losses	(611)	(1,102)
	5,836	55,976
	1,468,678	**1,733,545**
Equity instruments-		
Shares quoted in organized markets	-	25,557
Shares not quoted in organized markets	23,391	34,376
	23,391	59,933
Valuation adjustments-		
Valuation gains or losses and other	4,405	10,477
Impairment losses	(17,501)	(31,694)
	(13,096)	(21,217)
	10,295	**38,716**
	1,478,973	**1,772,261**

Note 21 contains certain information on the fair value of the financial instruments included in this category.

Note 22 includes information on the credit risk to which the debt instruments included in this financial instrument category are subject.

Note 23 shows certain information on the market risk to which the Bank is exposed in relation to these financial assets. Note 25 discloses certain information on interest rate risk.

Note 24 shows information on the exposure to liquidity risk, which includes information on the term maturity of these financial assets at 31 December 2018 and 2017. Note 26 includes information on the concentration risk associated to these financial assets.

8. Financial assets at amortised cost

Following is a detail of the financial assets included in “Loans and Receivables” in the balance sheets at 31 December 2018 and 2017:

	Thousands of Euros	
	2018	**2017**
Debt instruments-		
Debt securities issued by Spanish public sector		
Spanish publics	23,150	-
Non-performing assets	-	50,984
	23,150	50,984
Valuation adjustments-		
Impairment losses	(1,743)	(29,253)
Accrued interest	96	-
	(1,647)	(29,253)
	21,503	21,731
Loans and advances to credit institutions-		
Reverse repurchase agreements	1,238,907	968,241
Other term lonas	11,709	4,084
Advances different from loans	674,139	786,403
Non-performing assets	34	78
	1,924,789	1,758,806
Valuation adjustments-		
Impairment losses	(60)	(79)
Accrued interest	(281)	(358)
	(341)	(437)
	1,924,448	1,758,369
Loans and advances to customers-		
On demand	10,750	2,480
Credit card debt	590	623
Trade receivables	15,991	34,979
Reverse repurchase agreements	108,220	382,419
Other term loans	141,912	168,003
Advances different from loans	258,932	301,097
Non-performing assets	870	55,498
	537,265	945,099
Valuation adjustments-		
Impairment losses	(575)	(54,893)
Adquisition Premium	12,772	13,563
Accrued interest	1,899	590
	14,096	(40,740)
	551,361	**904,359**
	2,497,312	2,684,459

“Financial Assets at Amortised Cost - Loans and Advances to Customers” includes mortgage loans to customers with a carrying amount of EUR 44,821 thousand at 31 December 2018 (31 December 2017: EUR 46,143 thousand).

Note 22 provides certain relevant information on the credit risk, at 31 December 2018 and 2017, of the financial assets included in this category. In Note 21 there is information about the fair value of included in this category of financial assets at 31 December 2018 and 2017.

Note 23 discloses certain relevant information on the market risk relating to the financial assets included in this financial instrument category at 31 December 2018 and 2017.

Note 24 contains information on the liquidity risk associated with the Bank's financial instruments at 31 December 2018 and 2017, including information on the terms to maturity at those dates of the financial assets included in this category.

Note 25 includes information on the interest rate risk. Note 26 includes information on the concentration risk associated with the financial assets included in this category at 31 December 2018 and 2017.

9. Hedging derivatives – Fair value hedges

The Bank has entered into financial derivatives transactions with various counterparties of recognized creditworthiness which are considered fair value and cash flow hedges of certain balance sheet positions against fluctuations in market interest rates and also to comply with the requirements of the applicable regulation.

The Bank's hedged balance sheet positions relate to fixed-rate debt instruments (guaranteed issues, government bonds and treasury bills). These securities are issued by the Spanish government, Spanish private sector financial institutions and other resident sectors.

Given that the positions giving rise to the risk are long-term transactions tied to a fixed interest rate, the main aim of the hedge is to change the returns of the hedged items from fixed to floating and, accordingly, their performance to changes in market interest rates. To this end, the Bank uses OTC interest rate derivatives (basically swaps such as call money swaps).

The Bank uses call money swaps to hedge each group of debt instruments, which are grouped on the basis of their sensitivity to changes in interest rates, and documents the related efficiency analyses of the hedges to verify that, at inception and throughout the life of these hedges, the Bank can expect, prospectively, that the changes in fair value of the hedged items attributable to the hedged risk will be almost fully offset by changes in the fair value of the hedging instruments and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item. The aforementioned hedges are highly effective.

Following is a detail, by instrument, of the fair value of the hedging instruments in fair value hedges:

	Thousands of Euros			
	2018		**2017**	
	Asset balances	**Liability balances**	**Asset balances**	**Liability balances**
Hedged instrument				
Financial assets at fair value through other comprehensive income	17	6,898	1,723	1,412
	17	**6,898**	**1,723**	**1,412**

Gains/losses on hedging instruments and hedged items are recognized under "Gains/Losses on Financial Assets and Liabilities (Net)" in the income statement of the Bank (see Note 33).

The 21 discloses information on the fair value of these hedging derivatives at 31 December 2018 and 2017. Note 22 includes certain information on the credit risk associated with these derivatives at 31 December 2018 and 2017.

10. Non-current assets and disposal groups classified as held for sale

The breakdown of the balance of “Non-Current Assets Held and Disposal Groups Classified as Held for Sale” in the balance sheets at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
Real properties	2,772	2,772
Equity instruments	1,019	1,015
	3,791	**3,787**

The changes in 2018 and 2017 in the items included in this heading in the balance sheets, and the related impairment losses, were as follows:

	Thousands of Euros	
	2018	**2017**
Cost:		
Balances at 1 January	16,412	29,397
Disposals	-	(13,041)
Transfers	4	56
Balances at 31 December	**16,416**	**16,412**
Impairment losses:		
Balances at 1 January	(12,625)	(11,287)
Additions	-	(1,338)
Disposals	-	-
Transfers	-	-
Balances at 31 December	**(12,625)**	**(12,625)**
Net Balances at 31 December	**3,791**	**3,787**

The Bank holds 14.44% of the share capital of Ahorro Corporación, S.A. (in liquidation). At 31 December 2018 and 2017, the carrying amount of this ownership interest was EUR 1,015 thousand.

Also, the Bank owns all the shares of CEA Trade Services Limited, a company that was in liquidation at the date of formal preparation of these financial statements. As a result of the position of this subsidiary, taking into consideration how this investment is expected to be recovered, in 2018 the Bank reclassified these shares from “Investments in Subsidiaries, Joint Ventures and Associates - Subsidiaries” to “Non-Current Assets and Disposal Groups Classified as Held for Sale” in the balance sheet (see Note 11).

The expenses arising from this liquidation process, amounting to EUR 10 thousand, are recognised under “Profit or Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations” in the statement of profit or loss for 2018.

The Bank continues to actively manage the items included under this heading that have been classified as such for more than one year (all of which are properties), with a view to selling them at short term. Although the situation in the Spanish property market makes it difficult to dispose of these assets, the Bank's management of these assets is aimed at selling them at short term, and the Bank has reasonable expectations of achieving this; accordingly, since the other requirements established in Bank of Spain Circular 4/2017 in this connection have been met, the assets continue to be classified and measured as non-current assets held for sale.

11. Investments in subsidiaries, joint ventures and associates

Following is a detail of the investments held by the Bank in subsidiaries and jointly controlled entities at 31 December 2018 and 2017:

Entity	Location	Ownership Percentage	Book Value (Thousands of Euros)	
			2018	2017
Subsidiaries:				
Servipagos, S.A.U.	Madrid	100%	-	100
CEA Trade Services Limited (*)	Hong Kong	100%	-	4
Trionis, S.C.R.L.	Brussels	78.62%	312	312
			312	**416**

(*) The company is going through a liquidation process.

The Appendix I includes certain information on these investees.

At 31 December 2018 and 2017, the Bank did not hold investments in either multi-group or associate entities.

At 31 December 2018 and 2017, nor during those years, there was no deterioration of the holdings held by Cecabank, S.A.

Servipagos, S.A.U., a wholly-owned subsidiary of the Bank, was liquidated on 27 December 2018. The liquidation proceeds, amounting to EUR 12 thousand, are recognised under "Gains or Losses on Derecognition of Non-Financial Assets, Net" in the statement of profit or loss for 2018.

12. Tangible assets

The changes in 2018 and 2017 in “Tangible Assets” in the balance sheets were as follow:

	Thousands of Euros				
	Property, Plant and Equipment for Own Use				
	Land and Buildings	Furniture, Fixtures and Vehicles	IT Equipment and Related Fixtures	Investment Property	Total
Cost:					
Balance at 1 January 2017	**71,036**	**27,425**	**11,128**	**2,246**	**111,835**
Additions	-	929	1,293	3	2,225
Disposals	-	(4,716)	(316)	-	(5,032)
Transfers	-	(71)	-	-	(71)
Balance at 31 December 2017	**71,036**	**23,567**	**12,105**	**2,249**	**108,957**
Additions	-	839	988	-	1,827
Disposals	-	(301)	(212)	-	(513)
Transfers	(8,656)	-	-	8,656	-
Balance at 31 December 2018	**62,380**	**24,105**	**12,881**	**10,905**	**110,271**
Accumulated depreciation:					
Balance at 1 January 2017	**(26,054)**	**(23,570)**	**(8,605)**	**(411)**	**(58,640)**
Charge for the year (Note 39)	(883)	(973)	(1,034)	(61)	(2,951)
Disposals	-	4,716	316	-	5,032
Transfers	-	15	-	-	15
Balance at 31 December 2017	**(26,937)**	**(19,812)**	**(9,323)**	**(472)**	**(56,544)**
Charge for the year (Note 39)	(858)	(865)	(1,209)	(123)	(3,055)
Disposals	-	301	202	-	503
Transfers	3,122	-	-	(3,122)	-
Balance at 31 December 2018	**(24,673)**	**(20,376)**	**(10,330)**	**(3,717)**	**(59,096)**
Tangible assets, net:					
Net balance at 31 December 2017	**44,099**	**3,755**	**2,782**	**1,777**	**52,413**
Net balance at 31 December 2018	**37,707**	**3,729**	**2,551**	**7,188**	**51,175**

At 31 December 2018 and 2017, property, plant and equipment for own use totaling (gross) approximately EUR 25,179 and 23,542 thousand had been depreciated in full.

Either at 31 December 2018 or at 31 December 2017, the tangible assets owned by the Bank were not impaired or there were no changes in this connection in those years.

In 2018 the rental income earned from investment property owned by the Bank amounted to EUR 1,279 thousand (2017: EUR 1,173 thousand) (see Note 34).

In 2018, the losses on disposals arising under “Property, Plant and Equipment – For Own Use” totaled EUR 2 thousand, recognized under “Gains or Losses on Derecognition of Non-Financial Assets and Investments, Net” in the income statement for 2018 (2017: income of EUR 2 thousand).

13. Intangible assets

13.1. Other intangible assets

The balance of this heading includes basically rights arising from the acquisition of certain depository businesses and custody of third party securities relating to collective investment undertakings and pension funds, as well as, to a lesser extent, computer software developed by the Bank, which is amortised as indicated in Note 2.14 above. The detail of “Other Intangible Assets” in the balance sheets as at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Intangible assets with finite useful life	318,110	320,062
Less:		
Accumulated amortization	(112,708)	(91,198)
Impairment losses	-	-
Total net	**205,402**	**228,864**

At 31 December 2018 the balance of fully amortized intangible assets in use was 5,741 thousands of euros (5,741 thousands of euros at 2017).

The changes in 2018 and 2017 in the balance sheet were as follows:

	Thousands of Euros
Cost:	
Balance at 1 January 2017	**279,791**
Additions and transfers	223,249
Disposals	(182,978)
Balance at 31 December 2017	**320,062**
Additions and transfers	19,687
Disposals and other movements	(21,639)
Balance at 31 December 2018	**318,110**
Accumulated amortization:	
Balance at 1 January 2017	**(175,750)**
Charge for the year (Note 39)	(53,883)
Disposals and other movements	138,435
Balance at 31 December 2017	**(91,198)**
Charge for the year (Note 39)	(43,149)
Disposals and other movements	21,639
Balance at 31 December 2018	**(112,708)**
Intangible assets, net:	
Net balance at 31 December 2017	**228,864**
Net balance at 31 December 2018	**205,402**

The additions in 2018 and 2017 in the foregoing table relate mainly to the capitalisation of the cost of the new depository contracts that arose following the renewal of the rights and obligations resulting from businesses acquired in prior years for the management of depository and custody services for securities entrusted by third parties, as well as to the variable payments made as a result of the achievement of certain contractual objectives and to the inclusion in the cost of guaranteed amounts originating from those businesses. Parallel to this capitalisation, in 2018 and 2017 the Bank derecognised the amortisation and impairment losses associated with the contracts that were renewed or derecognited, which had been amortised in full.

14. Other assets and liabilities

14.1. Other assets

The breakdown of the balance of "Other Assets" and "Other Liabilities" in the balance sheets at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
Other assets-		
Prepayments-		
Fees and commissions receivable	11,371	12,698
Non-accrued expenses	238	118
Other prepayments	1,445	1,228
Other assets-		
Transactions in transit	23,120	14,613
Nets Assets Post-Employment plans (Notes 2.11.2 & 35)	8,189	7,507
Other	12,368	6,780
	56,731	**42,944**

"Prepayments and Accrued Income – Fees and Commissions Receivable" includes the accrued commissions receivable by the Bank in relation to various services provided, basically in relation to the payment methods business and the custody business for collective investment undertakings and pension funds.

"Other Assets - Transactions in Transit" and "Other liabilities – Transactions in Transit" mainly include temporary balances which relate basically to securities underwriting transactions and other unsettled OTC transactions.

14.2. Other liabilities

The composition of the balance in the balance sheets at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
Accrued expenses and deferred income-		
Fees and commissions payable	1,387	1,932
Accrued expenses	47,222	46,784
Accrued revenues	808	2,036
Other liabilities-		
Transactions in transit	53,815	94,301
Other	1.685	5,686
	104,917	**150,739**

"Other Liabilities - Transactions in Transit" in the above table relates mainly to temporary balances consisting basically of share subscription transactions and other transactions performed on organised markets pending settlement.

The balance of the heading "Accruals - Accrued expenses " of "Other liabilities" in the foregoing table includes, among other items, as of December 31, 2018, balances amounting to 19,833 thousand euros (EUR 22,676 thousand at 31 December 2017) that originate in variable remuneration paid by the outstanding staff.

15. Financial liabilities at amortised cost

15.1. Breakdown

The detail of the items composing this heading in the balance sheets at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
Deposits-		
Central Banks	349,238	-
Deposits from credit institutions	1,202,934	858,371
Customer deposits	5,115,807	5,533,698
	6,667,979	6,392,069
Valuation adjustments	444	209
	6,668,423	6,392,278
Other financial liabilities	277,917	640,343
	6,946,340	**7,032,621**

Note 21 provides information on the fair value of these financial liabilities. Note 24 presents information on the residual maturity periods of these liabilities in relation to the liquidity risk associated with the Bank's financial instruments.

15.2. Financial liabilities at amortised cost - Deposits - Central Banks

The breakdown, by geographical area of residence of the counterparty and type of instrument, of the balances of this item in the balance sheets at 31 December 2017 and 2018 is as follows:

	Thousands of Euros	
	2018	**2017**
By geographical location:		
Spain	349,573	-
	349,573	**-**
By type of instrument:		
Time deposits-		
Time deposits	349,238	-
	349,238	-
Valuation adjustments	335	-
	349,573	**-**

15.3. Financial liabilities at amortised cost - Deposits - Credit entities

The breakdown, by geographical area of residence of the counterparty and type of instrument, of the balances of this item in the balance sheets at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
By geographical location:		
Spain	711,358	548,992
Other EMU countries	327,552	188,589
Rest of the world	163,562	120,401
	1,202,472	**857,982**
By type of instrument:		
Demand deposits and other-		
Other accounts	692,899	562,876
Time deposits-		
Time deposits	279,187	149,707
Repurchase agreements	230,848	145,788
	1,202,934	858,371
Valuation adjustments	(462)	(389)
	1,202,472	**857,982**

15.4. Financial liabilities at amortised cost - Customer deposits

The breakdown, by geographical area of residence of the counterparty, type of instrument and type of counterparty, of the balances of this item in the balance sheets at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
By geographical location:		
Spain	5,103,171	5,428,586
Other EMU countries	7,896	5,239
Rest of the world	5,311	100,471
	5,116,378	**5,534,296**
By counterparty:		
Resident public sector	232,486	233,239
Non-resident public sector	100	217
Other resident sectors	4,870,115	5,194,688
Other non-resident sectors	13,106	5,989
Central counterparties	-	99,565
	5,115,807	5,533,698
Valuation adjustments	571	598
	5,116,378	**5,534,296**
By type of instrument:		
Current accounts	4,316,952	4,758,254
Other demand deposits	135,214	92,505
Fixed-term deposits	587,185	580,364
Repurchase agreements	76,456	102,575
	5,115,807	5,533,698
Valuation adjustments	571	598
	5,116,378	**5,534,296**

15.5. Financial liabilities at amortised cost - Other financial liabilities

The breakdown of the balance of this item in the balance sheets at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Payment obligations	13,342	31,268
Collateral received	208	198
Tax collection accounts	-	-
Special accounts	21,383	20,939
Other	242,984	587,938
	277,917	640,343

At 31 December 2018, "Other" in the foregoing table included, among other items, balances amounting to EUR 128,984 thousand (31 December 2017: EUR 446,722 thousand) arising from means of payment procedures that certain credit institutions carry out through the Bank. These balances are temporary and are settled on the first business day following the date on which they arose.

In addition, the account "Other" in the previous table includes, at 31 December 2018, the amount of loan repayments granted to Public Administrations, under the agreement formalized with the Official Credit Institute to implement the Fund's plan for the Financing of the Payment to Suppliers of Public Administrations, pending payment of this Institute, amounting to 53,770 thousand euros (2017: EUR 54,206 thousand).

16. Provisions

16.1. Provisions or reversal of provisions

The detail, according to the purpose of the net provisions recognized, of this item in the income statement for 2018 and 2017 is as follows:

	Thousands of Euros	
	Net Additions/ (Reversals)	
	2018	2017
Additions to/ (Reversal of) provisions for pensions and similar obligations (Notes 16.2 and 35)	(423)	211
Additions to/ (Reversal of) for commitments and guarantees granted (Note 16.2)	(133)	72
Additions to/ (Reversal of) for procedural issues and procedural tax litigation (Note 16.2)	(972)	3,321
Additions to/ (Reversal of) other provisions (Note 16.2)	(10,597)	(20,513)
	(12,125)	(16,909)

16.2. Provisions – changes and breakdown

The changes in the balances of these items in the balance sheets at 31 December 2018 and 2017 were as follows:

	Thousands of Euros			
	Other long-term employee remunerations (Note 35)	**Commitments and guarantees granted (Notes 2.10, 22 and 27.1)**	**Procedural issues and tax litigation proceedings (Note 20.1)**	**Other provisions**
Balances at 1 January 2017	76,166	134	19,663	94,071
Net addition/ (reversal) charged/ (credited) to income (Note 16.1)	211	72	3,321	(20,513)
Other net movements	(13,148)	-	(8,096)	(38)
Balances at 31 December 2017	**63,229**	**206**	**14,888**	**73,520**
Net addition/ (reversal) charged/ (credited) to income (Note 16.1)	(423)	(133)	(972)	(10,597)
Other net movements	(13,096)	201	(4,116)	(112)
Balances at 31 December 2018	**49,710**	**274**	**9,800**	**62,811**

"Other Changes, Net" under "Other Long-Term Employee Benefits" in 2018 consists mainly of the benefits paid to participants in the defined benefit plans totaling EUR 13,164 thousand (2017: EUR 13,200 thousand) (see Note 35).

As a result of previous tax audits, at 31 December 2018 and 2017 the Bank's directors had recognised a provision for the taxes that had been audited, in respect of the years not yet reviewed. These amounts account for a significant portion of the balance recognised under "Pending Legal Issues and Tax Litigation".

"Other Provisions" at 31 December 2018 includes basically the amount recorded, based on a internal model developed by the bank, to cater for the operational risk to which the directors consider the Bank to be exposed as a result of the provision of custody and depository services for securities entrusted by third parties, as well as the provisions recognised in relation to operations involving certain interest rate derivatives. "Other Provisions - Other Changes, Net" in 2018 includes the amounts used as a result of the derecognition from the Bank's balance sheet of certain derivative instruments relating to the aforementioned operations.

17. Other accumulated net income

17.1. Items that may be reclassified to profit or loss - Changes of fair value of debt instruments measured at fair value through other comprehensive income

This item in the balance sheets at 31 December 2018 and 2017 includes the amount, net accumulated of the related tax effect, of changes in the fair value of debt instruments measured at fair value through other comprehensive income (see Note 7) which, as stated in Note 2.2, should be recognized in the Bank's equity; these changes are recognized in the income statements when the assets which gave rise to them are sold or when these assets become impaired. The accompanying statements of recognized income and expense show the changes in 2018 and 2017 in this item in the balance sheets at 31 December 2018 and 2017.

17.2. Items that will not be reclassified to profit or loss – Actuarial gains and losses from defined benefit pension obligations

This heading in the balance sheets at 31 December 2018 and 2017 included the net cumulative amount, adjusted for the related tax effect, of the actuarial gains and losses arising from the measurement of the provision for defined benefit pension obligations (see Notes 2.11.2 and 35). The accompanying statement of changes of equity shows the changes in 2018 and 2017 in this item in the balance sheets at 31 December 2018 and 2017.

17.3. Items that will not be reclassified to profit or loss - Changes of fair value of debt instruments measured at fair value through other comprehensive income

This heading in the balance sheets as at 31 December 2018 and 2017 includes the net accumulated amount, adjusted by the related tax effect, of changes in the fair value of equity instruments classified as financial assets measured at fair value through other comprehensive income since their acquisition (see Note 7), which, as indicated in Note 2.2, should be classified in the Bank's equity. These changes are recognised under “Other Reserves” when the assets which gave rise to the changes are sold. The accompanying statement of changes in equity reflects the changes that took place in this heading of the balance sheets as at 31 December 2018 and 2017.

18. Share Capital and Share Premium

18.1. Share capital

1 January 2012 (see Note 1.1) the Bank was incorporated with initial share capital of EUR 100,000,000 represented by 100,000,000 shares of nominal value of 1 euro, being CECA its sole shareholder at the time of the constitution.

Subsequently, on 13 November 2012, under the spin-off process conducted by CECA in favor of the Bank (see Note 1.1), a capital increase amounting to EUR 78,932,117.60 by issuing 12,256,540 new shares with the same political and economic rights of the existing nominal value of 1 euro and 5.44 euro per share premium, was conducted. These shares were fully subscribed and paid by the previous owners of the non-voting equity units that were part of the equity of CECA, following acceptance of CECA's offer to repurchase the non-voting equity units and CECA's waiver of its pre-emptive subscription right on shares of the Bank. Therefore, CECA retained an 89% ownership interest in the Bank's share capital.

In this regard, at 31 December 2018 and 2017, the Bank's share capital consisted of 112,256,540 fully subscribed and paid registered shares of EUR 1 par value each, all with the same dividend and voting rights. At 31 December 2018 and 2017, 89% of the Bank's share capital was held by Confederación Española de Cajas de Ahorros. The remaining 11% is owned by the entities that were holders of the non-voting equity units of CECA and accepted the repurchase offer mentioned above.

The Bank made a significant volume of transactions with its major shareholder, the Group in which it forms part (see Note 40) and with the remaining shareholders.

The Bank's shares are not listed on official stock markets. Except for the CECA's 89% ownership interest in the Bank's share capital, no entity holds more than 10% of the Bank's share capital. There are no rights on founder's shares, “rights” bonds, convertible debentures or similar securities or rights issued by the Bank or the Group. There are no payments payable on the Bank's shares, amounts authorised by the General Meeting for carrying out capital increases, or capital increases in progress. During the 2018 and 2017 years there were no increases in the number of shares issued by the Bank.

18.2. Share premium

According to the Spanish Limited Liability Companies Law, it is explicitly permitted the use of the balance of this reserve to increase capital and it establishes no specific restrictions as to its use. The balance of the share premium at 31 December 2018 and 2017 amounted to EUR 615,493 thousand which arose as a result of the capital increase described in Note 18.1 above and the recognition in 2012 of the spin-off of the assets and liabilities of Cecabank described previously (see Note 1.1).

19. Retained earnings and Other reserves

The changes in the balances of these items in the balance sheets at 31 December 2018 and 2017 were as follows:

19.1. Retained earnings

"Retained Earnings" includes the net amount of the accumulated profits or losses recognised in prior years in the statement of profit or loss which are still available for distribution or which, in the distribution of profit, are appropriated to equity.

19.1.1. Legal Reserve

According to the Spanish Limited Liability Companies Law, companies that obtain economic benefits, should allocate at least 10% of them to the constitution of the legal reserve. These transfers must be made until the reserve reaches 20% of capital. The legal reserve can be used to increase share capital by the amount of the balance that exceeds 10% of the already increased share capital amount. Except for this purpose, it can only be used to offset losses, and provided that there are no other sufficient reserves available for this purpose. At 31 December 2018 and 2017, the balance of the legal reserve, amounting to EUR 22,451 thousand, had reached the legally required minimum.

19.1.2. Capitalisation reserve

Pursuant to Article 25 of Spanish Income Tax Law 27/2014, of 27 November, the Bank maintains a restricted reserve for a period of five years from the date of recognition (2020-2022), amounting to EUR 15,487 thousand at 31 December 2018 (31 December 2017: EUR 9,267 thousand).

19.1.3. Voluntary Reserves

These reserves are unrestricted reserves for the Bank, as there is no legal or bylaw restriction on their use. The balance thereof at 31 December 2018 totals EUR 228,629 thousand (31 December 2017: EUR 179,935 thousand).

19.2. Other reserves

"Other Reserves" includes the amount of the reserves not included under other items, such as amounts arising from permanent adjustments made directly in equity in connection with expenses arising from the issuance, redemption or retirement of own equity instruments and the retrospective restatement of the financial statements due to errors or changes in accounting policies, net of the related tax effect. At 31 December 2018, these reserves included mainly the effects of initial application of the regulatory change described in Note 1.4.

20. Tax matters

The Bank is part of the Tax Consolidation Group number 508/12 established on 1 January 2012, being the Confederación Española de Cajas de Ahorros the parent company (see Note 18).

The Bank presents its tax returns, according to the tax legislation.

20.1. Years open for review by the tax authorities

In 2017, as a result of an audit conducted by the tax authorities, tax assessments were issued for the years until 2013 inclusive, most of which were signed on an uncontested basis. At 31th December, 2018, the amounts settled by the aforementioned inspection have been fully paid.

In addition, since the returns filed by the Bank in the last four years are open for review by the tax authorities, from the end of the voluntary filing period for income tax and for the other taxes, the Bank's directors consider that the impact of the varying interpretations that can be made of certain tax legislation applicable to the transactions performed by the Bank in the years not yet reviewed will not have a material effect on the figures included in the accompanying financial statements.

20.2. Tax expense or income related to profit or loss from continuing operation

The detail of “Tax expense or income related to profit or loss from continuing operation” in the income statements for 2018 and 2017 is as follows:

	Thousands of Euros Expenses/(Revenues)	
	2018	**2017**
Income tax expense for the year (Note 20.3)	25,448	31,626
Prior years’ and other adjustments	(201)	3,312
	25,247	**34,938**

20.3. Reconciliation of accounting profit to taxable profit

The reconciliation of the income tax expenses recognized for 2018 and 2017 to the accounting profit before tax multiplied by the tax rate applicable to the Bank, and the income tax charge recognized at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
Accounting profit before tax	88,741	108,156
Tax rate	30%	30%
	26,622	32,447
Permanent differences:		
Increases	191	1.190
Decreases	(916)	(1,866)
Total	**25,897**	**31,771**
(Tax credits)/(Tax relief)	(449)	(145)
Income tax expense for the year (Note 20.2)	**25,448**	**31,626**
Temporary differences effect:		
Increases	2,699	8,569
Decreases	(17,689)	(21,877)
Tax with holdings and prepayments	(13,031)	(23,941)
Income tax charge for the year	**(2,573)**	**(5,623)**

The current income tax charge shown in the above table is recognized under “Tax Assets-Current Tax Assets” in the balance sheet attached at 31 December 2018 and 2017.

20.4. Tax recognized in equity

In addition to the income tax recognized in the income statement, in 2018 and 2017 the Bank recognized the following deferred amounts of income tax in equity during those periods:

	Thousands of Euros	
	Increase/Decrease in Equity	
	2018	2017
Tax effect of actuarial gains and losses on pension plans to defined benefit	(185)	(667)
Tax effect of unrealised gains or losses on equity instruments at fair value through other comprehensive income	(596)	(1.104)
Tax effect of unrealised gains or losses on debt instruments measured at fair value through other comprehensive income	13,478	5,421
Tax effect of unrealized gains and losses on non-current assets held for sale and disposal groups held for sale (Note 10)	-	3,105
	12,697	**6,755**

20.5. Deferred taxes

Pursuant to the tax legislation in force, in 2018 and 2017 certain temporary differences arose that must be taken into account when quantifying the related income tax expense. The deferred taxes recognized in the balance sheets at 31 December 2018 and 2017 were as follows:

	Thousands of Euros	
	2018	2017
Deferred tax assets arising from:		
Additions and contributions to pension provisions and funds and other long-term obligations to employees	7,625	11,370
Additions to provisions	21,535	25,252
Impairment losses	60,925	67,559
Other	10,233	4,671
	100,318	**108,852**

EUR 28,291 thousand of the total deferred tax assets recognized at 31 December 2018 (31 December 2017: EUR 29,578 thousand) relate to assets that meet the conditions of Article 130 of Spanish Income Tax Law 27/2014, of 27 November, to give rise to a possible right to convert them into credits receivable from the tax authorities.

	Thousands of Euros	
	2018	**2017**
Deferred tax liabilities arising from:		
Revaluation of property	7,937	7,998
Additions and contributions to pension provisions and funds and to provisions for other long-term obligations to employees	2,456	2,252
Other	7,620	15,938
	18,013	**26,188**

20.6. Operations performed in prior years under Chapter VII of Title VII of the Corporation Tax Law approved by Law 27/2014, of 27 November

The Bank has been involved in previous exercises corporate restructuring transactions subject to special tax neutrality regime regulated in Chapter VII of Title VII of the Corporation Tax Law approved by Law 27/2014, of 27 November.

In order to comply with the provisions of Article 86 of the Corporation Tax Law approved by Law 27/2014, of 27 November regarding the contribution of industry on the part of the Confederación Española de Cajas de Ahorros to the Bank (Cecabank, S.A.) as described in Note 1.1. then provides the following information:

- Last balance sheet by the transferor (Confederación Española de Cajas de Ahorros) at 31 December 2011:

(Thousands of Euros)

ASSETS	31/12/2011
Cash and balances with central banks	492,394
Financial assets held for trading	5,781,782
Other financial assets designated at fair value through profit or loss	999,877
Available-for-sale financial assets	3,608,306
Loans and receivables	5,304,647
Hedging derivatives	10
Non-current assets held for sale	84
Investments	515
Tangible assets	98,414
Intangible assets	2,446
Tax assets	128,981
Other assets	42,031
TOTAL ASSETS	16,459,487
LIABILITIES AND EQUITY	
LIABILITIES	
Financial liabilities held for trading	5,360,647
Other financial liabilities at fair value through Profit or loss	2,324,724
Financial liabilities at amortized cost	7,000,314
Hedging derivatives	25,759
Provisions	206,302
Tax liabilities	44,926
Welfare funds	215
Other liabilities	763,135
TOTAL LIABILITIES	15,726,022
EQUITY	
Own Funds	
Equity units and associated funds	30,051
Reserves	669,481
Profit for the year	38,756
Valuation Adjustments	
Available for sale assets	(4,823)
TOTAL EQUITY	733,465
TOTAL LIABILITIES AND EQUITY	16,459,487

- All property acquired by the Company under this operation have been incorporated into its books by the same value contained in the accounts of the transferor to match these values with those recorded in the CECA Group consolidated financial statements.

Under Article 84 of the Corporation Tax Law approved by Law 27/2014, of 27 November, the Bank is subrogated regarding the timeliness of maintenance of the assets that have materialized in deductions for reinvestment accredited by CECA.

In any case, it has access to individualized information for each of the assets acquired by the Bank for the purposes of complying with the obligation under Article 86 of the Corporation Tax Law approved by Law 27/2014, of 27 November.

20.7. Tax credit for reinvestment of extraordinary benefits

The amount of the income qualifying for the reinvestment tax credit and deductions for each year is as follows:

Year	Thousands of Euros		
	Income qualifying	Rent accredited	Deduction
2010(*)	10,681	4,448	534
2011(*)	846	1,820	218
2012	-	5,259	631
	11,527	11,527	1,383

(*) Income generated and reinvestments accredited by the Confederación Española de Cajas de Ahorros, before the spin-off performed in 2012.

20.8 Revaluation of assets

The Bank does not availed itself of the process for revaluing the tax value of certain properties as defined by Law 16/2012, of 27 December, adopting various tax measures aimed at consolidating public finances and boosting economic activity, which enables entities, provided certain requirements are met, to revalue certain assets on their balance sheets.

21. Fair value

21.1. Fair value of financial assets and liabilities

The fair value of the Bank's financial instruments at 31 December 2018 and 2017 is broken down, by class of financial asset and liability, in this Note, into the following levels:

- **LEVEL 1**: financial instruments whose fair value determined by reference to their quoted price in active markets.
- **LEVEL 2**: financial instruments whose fair value estimated by reference to quoted prices in organized markets for similar instruments or using other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data.
- **LEVEL 3**: instruments whose fair value estimated using valuation techniques in which certain significant inputs are not based on observable market data.

The most objective reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market (quoted price or market price). If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and of commonly used valuation techniques.

The methodology used to calculate fair value for each class of financial assets and liabilities is as follows:

- Trading derivatives and hedging derivatives:
    - Financial derivatives traded in organized, transparent and deep markets: fair value is deemed to be their daily quoted price.
    - OTC derivatives or derivatives traded in scantly deep or transparent organised markets: fair value is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques accepted in the financial markets: "net present value" (NPV), option pricing models, etc.
- Debt instruments:
    - Quoted debt instruments: their fair value was generally determined on the basis of price quotations on official markets, at the Bank of Spain Book-Entry Trading Central Office, on the Spanish AIAF fixed-income market, etc., or by applying prices obtained from information service providers, mainly Bloomberg and Reuters, which construct their quotes on the basis of prices reported by contributors.
    - Unquoted debt instruments: their fair value is determined theoretically on the basis of discounted future cash flows and by using, for the specific instrument concerned, the corresponding valuation model recognised by the financial markets.
- Equity instruments:
    - Quoted equity instruments: their fair value was determined taking into account their price quotations on official markets.
    - Unquoted equity instruments: their fair value was determined taking into consideration valuations performed by independent experts, including intern control over their valuation, or directly using intern valuations. In both cases, there has been used:
        - Discounted cash flows.
        - Multiples of comparable listed companies.
        - Adjusted Net Asset Value (NAV).
- Loans and advances to customers:
    - The Bank considered the fair value of these financial assets to be the same as their carrying amount, since, as a result of their maturity and interest rate features and the early repayment clause of most transactions, there are no material differences between the two values.
- Financial liabilities at amortized cost:
    - The Bank considered the fair value of these financial liabilities to be the same as their carrying amount, since, as a result of their maturity and interest rate features, there are no material differences between the two values.

For the purposes of Levels 2 and 3, the prices were obtained using standard quantitative models fed by market data, which are either directly observable or can be calibrated or calculated using observable data. The most widely used models are the Shifted lognormal, Libor Market and Hull-White models for derivates over interest rates, the Black&Scholes model for derivates over equities and foreign currency, and the Jarrow-Turnbull, Black adapted to credit and LHP models for credit products; the most common directly observable data are the interest rate, exchange rate and certain implied volatilities, and correlations.

The fair value of the Bank's financial instruments at 31 December 2018 and 2017, broken down as indicated above, is as follows:

Financial assets – fair value at 31 December 2018-

	Thousands of Euros													
	Cash, cash balances at central banks and other demand deposits (Note 5)		Financial Assets Held for Trading (Note 6.1)		Non trading financial assets mandatorily at fair value through profit or loss (Note 6.2)		Financial assets at fair value through profit or loss (Note 6.3)		Financial assets at fair value through other comprehensive income (Note 7)		Financial assets at amortized cost (Note 8)		Derivatives - hedge accounting (Note 9)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value			Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1:														
Debt instruments	-	-	694,393	694,393	-	-	-	-	1,276,682	1,276,682	-	-	-	-
Equity instruments	-	-	240,744	240,744	5,143	5,143	-	-	-	-	-	-	-	-
Derivatives	-	-	94	94	-	-	-	-	-	-	-	-	-	-
	-	-	935,231	935,231	5,143	5,143	-	-	1,276,682	1,276,682	-	-	-	-
Level 2:														
Cash and balances with central banks and other demand deposits	3,267,077	3,267,077	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	-	-	-	-	-	-	-	-	-	-	1,924,448	1,924,448	-	-
Loans and advances to customers	-	-	-	-	-	-	-	-	-	-	551,361	551,361	-	-
Debt instruments	-	-	58,303	58,303	41,320	41,320	-	-	191,996	191,996	21,503	21,503	-	-
Equity instruments	-	-	-	-	13,950	13,950	-	-	10,295	10,295	-	-	-	-
Trading derivatives	-	-	926,849	926,849	-	-	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-	-	-	-	-	17	17
	3,267,077	3,267,077	985,152	985,152	55,270	55,270	-	-	202,291	202,291	2,497,312	2,497,312	17	17
Level 3:														
Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	3,267,077	**3,267,077**	**1,920,383**	**1,920,383**	**60,413**	**60,413**	**-**	**-**	**1,478,973**	**1,478,973**	**2,497,312**	**2,497,312**	**17**	**17**

Financial assets – fair value at 31 December 2017-

	Thousands of Euros													
	Cash, cash balances at central banks and other demand deposits (Note 5)		Financial Assets Held for Trading (Note 6.1)		Non trading financial assets mandatorily at fair value through profit or loss (Note 6.2)		Financial Assets at Fair Value Through Profit or Loss (Note 6.3)		Financial assets at fair value through other comprehensive income (Note 7)		Financial assets at amortized cost (Note 8)		Derivatives - hedge accounting (Note 9)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value			Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1:														
Debt instruments	-	-	735,781	735,781	-	-	-	-	1,588,093	1,588,093	-	-	-	-
Equity instruments	-	-	287,482	287,482	-	-	-	-	19,005	19,005	-	-	-	-
Derivatives	-	-	122	122	-	-	-	-	-	-	-	-	-	-
	-	-	1,023,385	1,023,385	-	-	-	-	1,607,098	1,607,098	-	-	-	-
Level 2:														
Cash and balances with central banks and other demand deposits	2,656,780	2,656,780	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	-	-	-	-	-	-	256,876	256,876	-	-	1,758,369	1,758,369	-	-
Loans and advances to customers	-	-	-	-	-	-	-	-	-	-	904,359	904,359	-	-
Debt instruments	-	-	90,105	90,105	-	-	-	-	145,452	145,452	21,731	21,731	-	-
Equity instruments	-	-	-	-	-	-	-	-	19,711	19,711	-	-	-	-
Trading derivatives	-	-	1,031,280	1,031,280	-	-	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-	-	-	-	-	1,723	1,723
	2,656,780	2,656,780	1,121,385	1,121,385	-	-	256,876	256,876	165,163	165,163	2,684,459	2,684,459	1,723	1,723
Level 3:														
Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	2,656,780	**2,656,780**	**2,144,770**	**2,144,770**	**-**	**-**	**256,876**	**256,876**	**1,772,261**	**1,772,261**	**2,684,459**	**2,684,459**	**1,723**	**1,723**

Financial liabilities – fair value at 31 December 2018

	Thousand of Euros							
	Financial liabilities held for trading (Note 6.1)		**Financial liabilities at fair value through profit or loss (Note 6.3)**		**Financial liabilities at amortised cost (Note 15)**		**Derivatives - hedge accounting (Note 9)**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Level 1:								
Trading derivatives	755	755	-	-	-	-	-	-
Short positions	409,834	409,834	-	-	-	-	-	-
	410,589	410,589	-	-	-	-	-	-
Level 2:								
Deposits from central banks	-	-	-	-	349,573	349,573	-	-
Deposits from credit institutions	-	-	-	-	1,202,472	1,202,472	-	-
Customer deposits	-	-	-	-	5,116,378	5,116,378	-	-
Trading derivatives	966,268	966,268	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	277,917	277,917	-	-
Hedging derivatives	-	-	-	-	-	-	6,898	6,898
	966,268	966,268	-	-	6,946,340	6,946,340	6,898	6,898
Level 3:								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total	**1,376,857**	**1,376,857**	**-**	**-**	**6,946,340**	**6,946,340**	**6,898**	**6,898**

Financial liabilities – fair value at 31 December 2017-

	Thousands of Euros							
	Financial Liabilities Held for Trading (Note 6.1)		Other Financial Liabilities at Fair Value Through Profit or Loss (Note 6.3)		Financial Liabilities at Amortised Cost (Note 15)		Derivatives - hedge accounting (Note 9)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1:								
Trading derivatives	46	46	-	-	-	-	-	-
Short positions	393,937	393,937	-	-	-	-	-	-
	393,983	393,983	-	-	-	-	-	-
Level 2:								
Deposits from central banks	-	-	-	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	857,982	857,982	-	-
Customer deposits	-	-	-	-	5,534,296	5,534,296	-	-
Trading derivatives	1,145,995	1,145,995	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	640,343	640,343	-	-
Hedging derivatives	-	-	-	-	-	-	1,412	1,412
	1,145,995	1,145,995	-	-	7,032,621	7,032,621	1,412	1,412
Level 3:								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total	**1,539,978**	**1,539,978**	**-**	**-**	**7,032,621**	**7,032,621**	**1,412**	**1,412**

For the purposes of the criteria explained in the foregoing paragraphs, an input is considered to be significant if it is important in determining the fair value in its entirety.

The level of the aforementioned fair value hierarchy (levels 1, 2 or 3) within which the measurement of each of the Bank's financial instruments is categorised is determined on the basis of the lowest level input that is significant to the estimate of its fair value.

In 2018 and 2017, there were no material transfers between the various hierarchy levels, or significant changes in the measurement of unquoted equity instruments.

21.2. Fair value of tangible assets

The only tangible assets (own-use properties and property investments) owned by the Bank whose fair value differs from their carrying amount are the properties owned by it. At 31 December 2018, the carrying amount of these properties amounted to EUR 44,895 thousand (31 December 2017: EUR 45,876 thousand) and their estimated fair value at that date was EUR 58,405 thousand at 31 December 2018 and 2017.

The aforementioned fair value was estimated by Instituto de Valoraciones, S.A. using generally accepted valuation techniques.

22. Exposure to credit risk associated with financial instruments

22.1. Credit risk management objectives, policies and processes

Credit risk is defined as the risk that affects, or might affect, results or capital as a result of non-compliance by a borrower with its contractual obligations, or of the borrower failing to act as agreed.

The Bank has established certain procedures for the correct management of credit risk, the main features of which are as follows:

Credit risk analysis

At the Entity, the process of assessing the credit quality of counterparties is closely linked with the assignment of limits. Thus, the Bank assigns internal ratings to the various potential counterparties. This internal rating, together with the external agencies' ratings, contributes to the establishment of the maximum risk to be assumed with each entity. It also constitutes the basis for the acceptance and monitoring of risk.

The rating is the result of an analysis of various quantitative and qualitative factors which are assessed independently and receive a specific weighting for the calculating of the final rating. The final rating results from an independent assessment performed by the Bank's analysts, which brings together the perception of the credit quality of the entities with which the Bank wishes to transact business.

Credit risk monitoring and control

Credit risk is monitored through active portfolio management. The main aim is to detect, sufficiently in advance, any counterparties whose creditworthiness might be deteriorating. Systematic monitoring allows the whole of the portfolio to be classified into standard risk counterparties and counterparties under special surveillance.

As in risk analysis, ratings constitute another element for the risk monitoring process together with other variables including the country and type of business, among others.

In addition, as part of the monitoring of the credit risk and the adequacy of the contractual documentation supporting these operations is actively managed and monitored in conjunction with the Legal Department.

The control process comprises all the activities relating to the permanent checking of compliance with the established credit, counterparty and settlement risk limits, the management and reporting of overruns and the maintenance and update of parameterizations of products, customers, countries, economic groups, ratings, contractual offsetting agreements and financial guarantees in the control tools.

Risk limit structure

The Bank's general credit risk limit structure is divided into two major groups. On one hand, there are the limits individually assigned to a counterparty. There are also a series of limits associated with certain activities, as country risk limits and operating limits for private-sector fixed-income securities and equity securities, among others.

Credit Risk Measurement Methodology

Cecabank calculates credit risk exposure by applying the standardized approach provided in current regulations. Also, for products subject to counterparty risk, the Entity values the position at the market prices of the various transactions, to which it adds certain add-ons which, applied to the notional amounts, include in the measurement the potential risk of each transaction until maturity.

The management tools provide real-time information on the utilization of credit risk limits for each counterparty and economic group, thus facilitating the ongoing monitoring of any change and/or overrun of these limits.

In accordance with current legislation, the existence of guarantees and collateral reduces the credit risk of transactions for which they are provided.

Concentration risk

With regard to credit risk, concentration risk is an essential management tool. Is constantly monitors the extent of its credit risk concentration under various salient classifications: country, rating, sector, economic group, guaranties, etc.

The Bank uses conservative risk criteria for the management of concentration risk which enable it to manage the available limits sufficiently comfortably with respect to the legally established concentration limits.

According to the regulations in force, no position exceeded the large exposure threshold at 31 December 2018 and 2017.

At 31 December 2018, with regard to distribution by country, the largest exposure was located in Spain (75.66%), followed by the other European Union countries (23.16%) rising the exposure in the other countries of the world to 1.18%. At 31 December 2017, the distribution by country was 81.77%, 16.92%, and 1.31% respectively.

In Note 26 information on the risk of geographical concentration of the Bank as of December 31, 2018 and 2017 is presented.

Regarding the high level of industry concentration, it is due to the Bank's focus and the conducting of many activities, operations and services within the banking business in general, or indirectly related to it. Also, the risks in the financial services industry account for more than 95% of the total risk exposure at 31 December 2018 (excluding government exposure), although when evaluating this level of industry concentration it should be taken into account that this exposure is to a highly regulated and supervised segment.

22.2. Maximum credit risk exposure level

The followings tables show the maximum level of exposure to credit risk assumed by the Bank at 31 December 2018 and 2017 by class and category of financial instrument, without deducting the collateral or other guarantees received by the Bank to ensure debtors meet their obligations:

31 December 2018:

	Thousands of Euros							
	Assets							
	Financial asset held for trading (Note 6.1) (1)	Non trading financial assets mandatorily at fair value through profit or loss, (Note 6.2.)	Financial asset at fair value through profit or loss (Note 6.3)	Financial assets at fair value through other comprehensive income (Note 7)	Financial assets at amortised cost (Note 8)	Derivatives - hedge accounting (Note 9)	Memorandum Items	Total
1. Instrumentos de deuda-								
1.1 Loans and credits to credit institutions	**-**	**-**	**-**	**-**	**1,924,789**	**-**	**-**	**1,924,789**
• On demand	-	-	-	-	-	-	-	-
• Reverse repurchase agreements	-	-	-	-	1,238,907	-	-	1,238,907
• Other term loans	-	-	-	-	11,709	-	-	11,709
• Advances different from loans	-	-	-	-	674,139	-	-	674,139
• Non-performing assets	-	-	-	-	34	-	-	34
1.2 Debt instruments	**752,696**	**41,320**	**-**	**1,462,842**	**23,150**	**-**	**-**	**2,280,008**
• Government debt securities	409,951	-	-	307,951	-	-	-	717,902
• Treasury bills	-	-	-	-	-	-	-	-
• Other public agencies	9,774	-	-	-	-	-	-	9,774
• Non-resident Public sector	117,328	-	-	953,081	-	-	-	1,070,409
• Spanish credit institutions	44,222	-	-	29,897	-	-	-	74,119
• Credit institutions not resident in Spain	81,503	-	-	39,988	-	-	-	121,491
• Private sector (Spain)	8,501	-	-	88,901	-	-	-	97,402
• Private sector (rest of the world)	81,417	41,320	-	43,024	23,150	-	-	188,911
• Non-performing assets	-	-	-	-	-	-	-	-
1.3 Loans and advances to customers	**-**	**-**	**-**	**-**	**537,265**	**-**	**-**	**537,265**
• On demand	-	-	-	-	10,750	-	-	10,750
• Credit card debt	-	-	-	-	590	-	-	590
• Trade receivables	-	-	-	-	15,991	-	-	15,991
• Reverse repurchase agreement	-	-	-	-	108,220	-	-	108,220
• Other term loans	-	-	-	-	141,912	-	-	141,912
• Advances different from loans	-	-	-	-	258,932	-	-	258,932
• Non-performing assets	-	-	-	-	870	-		870
Total debt instruments	**752,696**	**41,320**	**-**	**1,462,842**	**2,485,204**	**-**	**-**	**4,742,062**
2. Contingent liabilities -								
Financial guarantees (Note 27.1)	-	-	-	-	-	-	70,397	70,397
Total contingent liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**70,397**	**70,397**
3. Other exposures -								
Derivatives	926,943	-	-	-	-	17	-	926,960
Drawable by third parties (Note 27.1)	-	-	-	-	-	-	199,602	199,602
Total other exposures	**926,943**	**-**	**-**	**-**	**-**	**17**	**199,602**	**1,126,562**
4. Less: impairment losses recognized	**-**	**-**	**-**	**(611)**	**(2,378)**	**-**	**(274)**	**(3,263)**
Maximum level of credit risk exposure (1+2+3+4)	**1,679,639**	**41,320**	**-**	**1,462,231**	**2,482,826**	**17**	**269,725**	**5,935,758**
Valuation adjustments	-	-	-	6,447	14,486	-	-	20,933
Total carrying amount	1,679,639	41,320	-	1,468,678	2,497,312	17	269,725	5,956,691

(1) The maximum credit risk exposure of the instruments included in the table above was taken to be their fair value at 31 December 2018.

31 December 2017:

	Thousands of Euros							
	Assets							
	Financial asset held for trading (Note 6.1) (1)	Non trading financial assets mandatorily at fair value through profit or loss, (Note 6.2.)	Financial asset at fair value through profit or loss (Note 6.3)	Financial assets at fair value through other comprehensive income (Note 7)	Financial assets at amortised cost (Note 8)	Derivatives - hedge accounting (Note 9)	Memorandum Items	Total
1. Instrumentos de deuda-								
1.1 Loans and credits to credit institutions	**-**	**-**	**256,932**	**-**	**1,758,806**	**-**	**-**	**2,015,738**
• On demand	-	-	-	-	-	-	-	-
• Reverse repurchase agreements	-	-	256,932	-	968,241	-	-	1,225,173
• Other term loans	-	-	-	-	4,084	-	-	4,084
• Advances different from loans	-	-	-	-	786,403	-	-	786,403
• Non-performing assets	-	-	-	-	78	-	-	78
1.2 Debt instruments	**825,886**	**-**	**-**	**1,677,569**	**50,984**	**-**	**-**	**2,554,439**
• Government debt securities	615,146	-	-	662,762		-	-	1,277,908
• Treasury bills	-	-	-	150,266	-	-	-	150,266
• Other public agencies	17,765	-	-	15,129	-	-	-	32,894
• Non-resident Public sector	46,963	-	-	542,703	-	-	-	589,666
• Spanish credit institutions	71,813	-	-	24,822	-	-	-	96,635
• Credit institutions not resident in Spain	10,100	-	-	15,046	-	-	-	25,146
• Private sector (Spain)	16,751	-	-	190,463	-	-	-	207,214
• Private sector (rest of the world)	47,348	-	-	76,378	-	-	-	123,726
• Non-performing assets	-	-	-	-	50,984	-	-	50,984
1.3 Loans and advances to customers	**-**	**-**	**-**	**-**	**945,099**	**-**	**-**	**945,099**
• On demand	-	-	-	-	2,480	-	-	2,480
• Credit card debt	-	-	-	-	623	-	-	623
• Trade receivables	-	-	-	-	34,979	-	-	34,979
• Reverse repurchase agreement	-	-	-	-	382,419	-	-	382,419
• Other term loans					168,003			168,003
• Advances different from loans	-	-	-	-	301,097	-	-	301,097
• Non-performing assets	-	-	-	-	55,498	-	-	55,498
Total debt instruments	**825,886**	**-**	**256,932**	**1,677,569**	**2,754,889**	**-**	**-**	**5,515,276**
2, Contingent liabilities -								
Financial guarantees (Note 27.1)	-	-	-	-	-	-	67,214	67,214
Total contingent liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**67,214**	**67,214**
3, Other exposures -								
Derivatives	1,031,402	-	-	-	-	1,723	-	1,033,125
Drawable by third parties (Note 27.1)	-	-	-	-	-	-	181,463	181,463
Total other exposures	**1,031,402**	**-**	**-**	**-**	**-**	**1,723**	**181,463**	**1,214,588**
4, Less: impairment losses recognized	**-**	**-**	**-**	**(1,102)**	**(84,225)**	-	**(206)**	**(85,533)**
Maximum level of credit risk exposure (1+2+3+4)	**1,857,288**	**-**	**256,932**	**1,676,467**	**2,670,664**	**1,723**	**248,471**	**6,711,545**
Valuation adjustments	-	-	(56)	57,078	13,795	-	-	70,817
Total carrying amount	**1,857,288**	**-**	**256,876**	**1,733,545**	**2,684,459**	**1,723**	**248,471**	**6,782,362**

(1) The maximum credit risk exposure of the instruments included in the table above was taken to be their fair value at 31 December 2017.

With respect to the credit derivatives arranged by the Bank, the foregoing tables include only the fair value thereof at 31 December 2018 and 2017 of such credit derivatives with debit balance, without considering if exists netting agreements.

The contingent liabilities are presented at the maximum amount guaranteed by the Bank. In general, it is considered that most of these balances will expire without any actual financing obligation arising for the Bank. The collateral on these transactions must also be taken into account (see Note 22.3 below). The balances of the contingent liabilities are presented at the maximum amounts available by the counterparties.

22.3. Collateral received and other credit enhancements

The general policy with regard to the arrangement of transactions involving financial derivative products, repos, sell/buy backs and securities lending is to enter into contractual netting agreements drafted by national or international associations. These agreements enable the transactions performed thereunder to be terminated and settled early in the event of default by the counterparty in such a way that the parties can only claim the net balance resulting from the settlement of such transactions.

Derivative financial instruments are arranged using ISDA Master Agreements, which are subject to the laws of England and Wales or the State of New York, or the Framework Agreement for Financial Transactions (CMOF) which is subject to Spanish law, depending on the counterparty. Financial guarantee agreements, namely the Credit Support Annex for ISDA Master Agreements and Appendix III for CMOFs, are entered into to hedge derivative financial instruments exceeding certain risk levels.

Standard Global Master Repurchase Agreements (GMRA) are entered into for repo and sell/buy back transactions, while standard European Master Agreement (EMA) or Global Master Securities Lending Agreements (GMSLA) are used for securities lending transactions. The clauses of these types of contractual netting agreements include regulations on the financial guarantees or spreads on the transactions.

Following is a detail of the Bank's maximum credit risk exposure to each financial instrument class secured by collateral or other credit enhancements in addition to the personal guarantee of the borrower, disregarding recognized impairment losses, at 31 December 2018 and 2017:

31 December 2018:

	Thousands of Euros							
	Government-backed	Secured by Spanish Government Debt Securities	Secured by Other Fixed-Income Securities	Secured by Shares	Netting Agreements	Secured by Mortgage	Guaranteed by Credit Institutions	Total
1. Financial assets at amortised cost								
1.1 Loans and advances to credit institutions	**-**	**481,718**	**604,947**	**152,242**	**-**	**-**	**-**	**1,238,907**
• Reverse repurchase agreements	-	481,718	604,947	152,242	-	-	-	1,238,907
• Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
• Time deposits		-	-	-	-	-	-	-
1.2 Debt instruments	**114,721**	**-**	**-**	**-**	**-**	**-**	**-**	**114,721**
1.3 Loans and advances to customers	**-**	**90,007**	**18,213**	**-**	**-**	**44,821**	**-**	**153,041**
• Reverse repurchase agreements	-	90,007	18,213	-	-	-	-	108,220
• Mortgage loans	-	-	-	-	-	44,821	-	44,821
• Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
• Loans with other collateral	-	-	-	-	-	-	-	-
Total debt instruments	114,721	571,725	623,160	152,242	-	44,821	-	1,506,669
2. Contingent liabilities-								
Financial guarantees and other indemnities	-	-	-	-	-	-	-	-
Documentary credits	-	-	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	-	-	-	-
3. Other exposures-								
Derivatives (*)	-	-	-	-	1,092,608	-	-	1,092,608
Total other exposures	-	-	-	-	1,092,608	-	-	1,092,608
Total amount covered	114,721	571,725	623,160	152,242	1,092,608	44,821	-	2,599,277

(*) These EUR 1,092,608 thousand represented the fair value of derivatives (with asset balances) entered into with netting agreements, although the existence of these agreements was not taken into account in order to reduce the value of their credit risk exposure. This amount relates to IRSs which have matching liability balances for the same amount with the same counterparty. Since the requirements established in Note 2.9 are met, they are presented at their net amount in the balance sheet.

31 December 2017:

	Thousands of Euros							
	Government-backed	Secured by Spanish Government Debt Securities	Secured by Other Fixed-Income Securities	Secured by Shares	Netting Agreements	Secured by Mortgage	Guaranteed by Credit Institutions	Total
1. Financial assets at amortised cost								
1.1 Loans and advances to credit institutions	**-**	**131,819**	**125,112**	**968,242**	**-**	**-**	**-**	**1,225,173**
• Reverse repurchase agreements	-	131,819	125,112	968,242	-	-	-	1,225,173
• Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
• Time deposits	-	-	-	-	-	-	-	-
1.2 Debt instruments	**92,575**	**-**	**-**	**-**	**-**	**-**	**-**	**92,575**
1.3 Loans and advances to customers	**-**	**303,921**	**78,498**	**-**	**-**	**46,143**	**-**	**428,562**
• Reverse repurchase agreements	-	303,921	78,498	-	-	-	-	382,419
• Mortgage loans	-	-	-	-	-	46,143	-	46,143
• Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
• Loans with other collateral	-	-	-	-	-	-	-	-
Total debt instruments	92,575	435,740	203,610	968,242	-	46,143	-	1,746,310
2. Contingent liabilities-								
Financial guarantees and other indemnities	-	-	-	-	-	-	-	-
Documentary credits	-	-	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	-	-	-	-
3. Other exposures-								
Derivatives (*)	-	-	-	-	1,283,295	-	-	1,283,295
Total other exposures	-	-	-	-	1,283,295	-	-	1,283,295
Total amount covered	92,575	435,740	203,610	968,242	1,283,295	46,143	-	3,029,605

(*) These EUR 1,283,295 thousand represented the fair value of derivatives (with asset balances) entered into with netting agreements, although the existence of these agreements was not taken into account in order to reduce the value of their credit risk exposure. This amount relates to IRSs which have matching liability balances for the same amount with the same counterparty. Since the requirements established in Note 2.9 are met, they are presented at their net amount in the balance sheet.

22.4. Credit quality of unimpaired, non-past-due financial assets

22.4.1. Analysis of credit risk exposure by credit rating

At 31 December 2018, 81.3% of the exposure had been rated by a credit rating agency recognized by the Bank of Spain (74.2% at 31 December 2017). The distribution, by rating, of the rated exposure is as follows:

Level	Rating (*)	Percentage	
		2018	**2017**
1	AAA-AA	9.8%	7.1%
2	A	24.3%	33.9%
3	BBB	55%	44.0%
4	BB	10.4%	12.8%
5	B	0.5%	2.2%
6	CCC and below	-	-
	Total	100%	100%

(*) The exposures were classified taking the most conservative of the ratings granted by the two rating agencies used to manage the Bank's risk: Moody's and S&P.

This distribution of rated exposure excludes positions in government debt securities and guaranteed debt, debt of regional administrations and other public organisms, and that corresponding to central counterparties, all of which are exempt for the purposes of the limits to the great risks.

22.4.2. Classification of credit risk exposure by counterparty

Following is a detail, by counterparty, of the maximum credit risk exposure (excluding impairment losses and other valuation adjustments recognized) in connection with financial assets not past-due or impaired at 31 December 2018 and 2017:

31 December 2018:

	Thousand of Euros										
	Resident Public Sector	Resident Credit Institutions	Other resident financial companies	Resident non financial companies	Resident Households	Non-resident Public Sector	Non-Resident Credit Institutions	Other non-resident financial companies	Non-Resident non financial companies	Non-Resident Households	Total
1. Financial assets at amortised cost											
1.1 Loans and credits to credit institutions	**-**	**1,666,849**	**-**	**-**	**-**	**-**	**257,906**	**-**	**-**	**-**	**1,924,755**
• On demand	-	-	-	-	-	-	-	-	-	-	-
• Reverse repurchase agreements	-	1,143,486	-	-	-	-	95,421	-	-	-	1,238,907
• Other term loans	-	11,709	-	-	-	-	-	-	-	-	11,709
• Advances different from loans	-	511,654	-	-	-	-	162,485	-	-	-	674,139
1.2 Debt instruments	**717,902**	**74,119**	**41,200**	**157,485**	**-**	**1,070,409**	**121,491**	**22,512**	**74,890**	**-**	**2,280,008**
1.3 Loans and advances to customers	**80,203**	**-**	**372,536**	**7,091**	**49,139**	**-**	**-**	**11,269**	**16,017**	**140**	**536,395**
• On demand	-	-	10,734	-	16	-	-	-	-	-	10,750
• Credit card debt	-	-	6	-	582	-	-	-	-	2	590
• Trade receivables	-	-	-	-	-	-	-	-	15,991	-	15,991
• Reverse repurchase agreements	-	-	108,220	-	-	-	-	-	-	-	108,220
• Other term loans	80,000	-	7,292	5,919	48,537	-	-	-	26	138	141,912
• Advances different from loans	203	-	246,284	1,172	4	-	-	11,269	-	-	258,932
Total debt instruments	**798,105**	**1,740,968**	**413,736**	**164,576**	**49,139**	**1,070,409**	**379,397**	**33,781**	**90,907**	**140**	**4,741,158**
2, Contingent liabilities-											
Financial guarntees and other indomenities	-	63,690	6,707	-	-	-	-	-	-	-	70,397
Total contingent liabilities	**-**	**63,690**	**6,707**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**70,397**
3, Other exposures-											
Derivatives	-	80,909	357,218	6,572	-	-	482,262	-	-	-	926,961
Contingent commitments	100,000	-	-	88,421	1,206	-	-	-	9,975	-	199,602
Total other exposures	**100,000**	**80,909**	**357,218**	**94,993**	**1,206**	**-**	**482,262**	**-**	**9,975**	**-**	**1,126,563**
Total	**898,105**	**1,885,567**	**777,661**	**259,569**	**50,345**	**1,070,409**	**861,659**	**33,781**	**100,882**	**140**	**5,938,118**

31 December 2017:

	Thousands of Euros							
	Resident Public Sector	**Resident Credit Institutions**	**Other Resident Entities**	**Other Residents**	**Non-resident Public Sector**	**Non-Resident Credit Institutions**	**Other non-Resident Sectors**	**Total**
1. Debt instruments-								
1.1 Loans and advances to credit institutions	**-**	**1,849,603**	**-**	**-**	**-**	**166,057**	**-**	**2,015,660**
• Reverse repurchase agreements	-	1,213,954	-	-	-	11,219	-	1,225,173
• Time deposits	-	32,652	-	-	-	-	-	32,652
• Deposits provided as guarantee for securities lending	-	259,211	-	-	-	141,244	-	400,455
• Other accounts	-	343,786	-	-	-	13,594	-	357,380
• Other								
1.2 Debt instruments	**1,461,068**	**96,635**	**-**	**207,214**	**589,666**	**25,146**	**123,726**	**2,503,455**
1.3 Loans and advances to customers	**100,000**	**-**	**14,790**	**689,777**	**13**	**-**	**85,021**	**889,601**
• Reverse repurchase agreements	-	-	-	303,921	-	-	78,498	382,419
• Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
• Other loans and credits	100,000	-	14,790	57,991	13	-	3,083	175,877
• Mortgage loans	-	-	-	46,143	-	-	-	46,143
• Other assets	-	-	-	281,722	-	-	3,440	285,162
Total debt instruments	1,561,068	1,946,238	14,790	896,991	589,679	191,203	208,747	5,408,716
2. Contingent liabilities-								
Financial guarantees and other indemnities	-	63,784	-	3,387	-	-	43	67,214
Total contingent liabilities	-	63,784	-	3,387	-	-	43	67,214
3. Other exposures-								
Derivatives	-	149,652	351,326	2,306	-	529,841	-	1,033,125
Contingent commitments	25,000	-	-	146,478	-	-	9,985	181,463
Total other exposures	25,000	149,652	351,326	148,784	-	529,841	9,985	1,214,588
Total	1,586,068	2,159,674	366,116	1,049,162	589,679	721,044	218,775	6,690,518

Also, as stated in the applicable legislation, presented below is the distribution of the loans to customers by type of counterpart (book value), with certain information about your warranties as of 31 December 2018 and 2017:

31 December 2018:

	Thousands of euros							
				Credit with real estate collateral. Carrying amount on amount of the latest available valuation (Loan to value)				
	TOTAL	Of which: real estate collateral	Of which: Other real guarantees	Less or equal to 40%	More than 40% and less or equal than 60%	More than 60% and less or equal than 80%	More than 80% and less or equal than 100%	More than 100%
Public Administrations	**80,203**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial institutions and individual entrepreneurs (financial business activity)	**383,805**	**-**	**108,197**	**-**	**-**	**-**	**108,197**	**-**
Non-financial entities and individual entrepreneurs (non-financial business activity)	**23,108**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Construction and property development	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-
Other purposes	23,108	-	-	-	-	-	-	-
Big enterprises	23,107	-	-	-	-	-	-	-
SMEs and individual entrepreneurs	1	-	-	-	-	-	-	-
Rest of households	**49,279**	**44,821**	**-**	**12,066**	**12,946**	**9,937**	**5,698**	**4,174**
Houses	44,206	44,581	-	12,066	12,706	9,937	5,698	4,174
Consumption	2,641	-	-	-	-	-	-	-
Other purposes	2,432	240	-	-	240	-	-	-
Subtotal	**536,395**	**44,821**	**108,197**	**12,066**	**12,946**	**9,937**	**113,895**	**4,174**
Minus: Value adjustments for impairment of assets not attributable to specific operations	**(347)**							
Total	**536,048**	**44,821**	**108,197**	**12,066**	**12,946**	**9,937**	**113,895**	**4,174**

31 December 2017:

	Thousands of euros							
				Credit with real estate collateral. Carrying amount on amount of the latest available valuation (Loan to value)				
	TOTAL	**Of which: real estate collateral**	**Of which: Other real guarantees**	**Less or equal to 40%**	**More than 40% and less or equal than 60%**	**More than 60% and less or equal than 80%**	**More than 80% and less or equal than 100%**	**More than 100%**
Public Administrations	**100,013**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial institutions and individual entrepreneurs (financial business activity)	**699,807**	**-**	**382,187**	**-**	**-**	**-**	**-**	**382,187**
Non-financial entities and individual entrepreneurs (non-financial business activity)	**37,467**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Construction and property development	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-
Other purposes	37,467	-	-	-	-	-	-	-
Big enterprises	37,458	-	-	-	-	-	-	-
SMEs and individual entrepreneurs	9	-	-	-	-	-	-	-
Rest of households	**52,314**	**46,526**	**-**	**8,482**	**6,716**	**15,808**	**10,734**	**4,786**
Houses	46,877	46,143	-	8,401	6,716	15,808	10,432	4,786
Consumption	2,345	-	-	-	-	-	-	-
Other purposes	3,092	383	-	81	-	-	302	-
Subtotal	**889,601**	**46,526**	**382,187**	**8,482**	**6,716**	**15,808**	**10,734**	**386,973**
Minus: Value adjustments for impairment of assets not attributable to specific operations	**(168)**	-	-	-	-	-	-	-
Total	**889,433**	**46,526**	**382,187**	**8,482**	**6,716**	**15,808**	**10,734**	**386,973**

22.5. Information on non-performing loans ratios

In view of the activities carried on by the Bank and the risk profile assumed by it, its non-performing loans ratios, measured as non-performing assets as a percentage of total credit risk, is 0.01% at 31 December 2018 (1.57% at 31 December 2017).

22.6. Financial assets renegotiated in the year

At 31 December 2018 and 2017, the Bank had only two refinanced transactions, both of which related to a single employee and which arose due to the defaulted repayments on the loans which this employee had been granted by the Entity. The gross carrying amount of these transactions at 31 December 2018 was EUR 389 thousand, with a specific allowance of EUR 149 thousand (31 December 2017: EUR 406 thousand and EUR 104 thousand, respectively).

22.7. Impaired assets

Following is a detail, by method used to calculate impairment losses (non-performing assets), of the financial assets considered to be impaired due to credit risk at 31 December 2018 and 2017:

	Thousands of Euros					
	31 December 2018			31 December 2017		
	Financial Assets Individually Assessed as Impaired	Financial Assets Collectively Assessed as Impaired	Total Impaired Assets	Financial Assets Individually Assessed as Impaired	Financial Assets Collectively Assessed as Impaired	Total Impaired Assets
1. Loans and receivables-						
1.1 Loans and advances to credit institutions (Note 8)	34	-	34	78	-	78
1.2 Debt instruments (Note 8)	-	-	-	50,984	-	50,984
1.3 Loans and advances to customers (Note 8)	228	642	870	54,743	755	55,498
Total debt instruments	262	642	904	105,805	755	106,560
2. Contingent liabilities-						
2.1 Financial bank guarantees and other bonds (Note 27.1)	-	-	-	-	-	-
2.2 Documentary credits (Note 27.1)	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	-	-
3. Other exposures-						
3.1 Derivatives (Note 6.1)	-	-	-	-	-	-
3.2 Contingent commitments (Note 27.1)	-	-	-	-	-	-
Total other exposures	-	-	-	-	-	-
Total	262	642	904	105,805	755	106,560

Assets (secured loans) presented by the Bank in the foregoing table as “individually impaired” at 31 December 2018 and 2017 were classified on the basis of an analysis of each such transaction, taking into account factors such as the financial position and solvency of the debtors, adverse changes in the fair value of the assets, giving rise to impairment, and other evidence justifying their classification as individually impaired under current legislation.

In connection with the information provided in the foregoing tables, it should be noted that financial assets classified as at fair value through profit or loss which might be impaired due to credit risk were not included, since when such assets are measured at fair value, any impairment losses are recognized as an adjustment to fair value in the Bank’s financial statements.

All the transactions considered by the Bank to be impaired at 31 December 2018 were classified under the “Loans and advances to credit institutions” and “loans and advances to customers” category for EUR 904 thousand. The transactions considered by the Bank to be impaired at 31 December 2017 were classified in "Loans and Receivables" for EUR 106,560 thousand.

22.8. Changes in, and distribution of, impairment losses

Following are the changes in the impairment losses due to credit risk recognized by the Bank in 2018 and 2017:

2018:

	Thousands of Euros					
	Balance at 1 January 2018	**Net Additions (Reversals) Charged (Credited) to Income (*)**	**Transfers Between Items**	**Amounts Used in the Year**	**Other Movements (**)**	**Balance at 31 December 2018**
1. Impairment losses not specifically identified						
1.1 Loans and receivables-						
• Loans and advances to credit institutions	-	26	-	-	-	26
• Debt instruments	1,102	(302)	-	-	1,554	2,354
• Loans and advances to customers	168	(241)	-	-	420	347
Total debt securities	1,270	(517)	-	-	1,974	2,727
1.2 Contingent risks -						
• Financial bank guarantees (Note 16.2)	206	(133)	-	-	201	274
Total Contingent Risks	206	(133)	-	-	201	274
1.3 Other exposures -	-	-	-	-	-	-
Total	1,476	(650)	-	-	2,175	3,001
2. Specifically identified impairment losses						
2.1 Debt securities -						
• Loans and advances to credit institutions	79	(44)	-	-	(1)	34
• Debt instruments	29,253	(7)	-	(29,246)	-	-
• Loans and advances to customers	54,725	71	-	(54,725)	157	228
Total debt instruments	84,057	20	-	(83,971)	156	262
2.2 Contingent Risks -	-	-	-	-	-	-
Total Contingent Risks	-	-	-	-	-	-
2.3 Other exposures -	-	-	-	-	-	-
Total	84,057	20	-	(83,971)	156	262
Total impairment losses (1+2)	85,533	(630)	-	(83,971)	2,331	3,263

(*) The total balance of “Net Additions/(Reversals) Charged/(Credited) to Income”, representing a recovery of EUR 497 thousand, was recognized with a credit to “Impairment or Reversal of Impairment on Financial Assets Not Measured at Fair Value through Profit or Loss” (see Note 38) in the income statement for 2018. The remaining EUR 133 thousand are recognised under “Provisions or Reversal of Provisions” in the statement of profit or loss for 2018.

(**) Relates to the increase in the specifically identified impairment losses on debt securities as a result of adjustments made for exchange differences, and to the effects of initial application of Bank of Spain Circular 4/2017 (see Note 1.4).

2017:

	Thousands of Euros					
	Balance at 1 January 2017	**Net Additions (Reversals) Charged (Credited) to Income (*)**	**Transfers Between Items**	**Amounts Used in the Year**	**Other Movements (**)**	**Balance at 31 December 2017**
1. Impairment losses not specifically identified						
1.1. Debt securities						
• Loans and advances to credit institutions	98	(48)	-	(50)	-	-
• Debt instruments	1,404	(302)	-	-	-	1,102
• Loans and advances to customers	4,739	(4,409)	-	-	(162)	168
Total debt securities	6,241	(4,759)	-	(50)	(162)	1,270
1.2 Contingent risks -						
• Financial bank guarantees (Note 16.2)	134	72	-	-	-	206
Total Contingent Risks	134	72	-	-	-	206
1.3 Other exposures -	-	-	-	-	-	-
Total	**6,375**	**(4,687)**	**-**	**(50)**	**(162)**	**1,476**
2. Specifically identified impairment losses						
2.1 Debt securities -						
• Loans and advances to credit institutions	51	28	-	-	-	79
• Debt instruments	34,231	(2,282)	-	-	(2,696)	29,253
• Loans and advances to customers	54,916	(191)	-	-	-	54,725
Total debt instruments	89,198	(2,445)	-	-	(2,696)	84,057
2.2 Contingent Risks -	-	-	-	-	-	-
Total Contingent Risks	-	-	-	-	-	-
2.3 Other exposures -	-	-	-	-	-	-
Total	**89,198**	**(2,445)**	**-**	**-**	**(2,696)**	**84,057**
Total impairment losses (1+2)	**95,573**	**(7,132)**	**-**	**(50)**	**(2,858)**	**85,533**

(*) The total balance of "Net Additions/(Reversals) Charged/(Credited) to Income", representing a recovery of EUR 7,132 thousand, was recognized with a credit to "Impairment Losses on Financial Assets (Net)" (see Note 38) in the income statement for 2017.
(**) There was a decrease in the specifically identified impairment losses on debt instruments as a result of adjustments made for exchange differences.

Following is a detail, by financial instrument category, of the impairment losses recognized by the Bank due to credit risk at 31 December 2018 and 2017:

31 December 2018:

	Thousands of Euros			
	Financial assets at fair value through other comprehensive income (Note 7)	**Financial assets at amortised cost (Note 8)**	**Provisions for Contingent Liabilities and Commitments (Note 16.2)**	**Total**
1. Impairment losses not specifically identified				
1.1 Debt securities-				
• Loans and advances to credit institutions	-	26	-	26
• Debt instruments	611	1,743	-	2,354
• Loans and advances to customers	-	347	-	347
Total debt securities	611	2,116	-	2,727
1.2 Contingent Risks -				
• Financial bank guarantees	-	-	274	274
Total contingent liabilities	-	-	274	274
1.3 Other exposures -	-	-	-	-
Total	611	2,116	274	3,001
2. Specifically identified impairment losses				
2.1 Debt securities -				
• Loans and advances to credit institutions	-	34	-	34
• Debt instruments	-	-	-	-
• Loans and advances to customers	-	228	-	228
Total debt securities	-	262	-	262
2.2 Contingent Risks -	-	-	-	-
2.3. Other exposures -	-	-	-	-
Total	-	262	-	262
Total impairment losses (1+2)	611	2,378	274	3,263

31 December 2017:

	Thousands of Euros			
	Financial assets at fair value through other comprehensive income (Note 7)	**Financial assets at amortised cost (Note 8)**	**Provisions for Contingent Liabilities and Commitments (Note 16.2)**	**Total**
1. Impairment losses not specifically identified				
1.1 Debt securities-				
• Loans and advances to credit institutions	-	-	-	-
• Debt instruments	1,102	-	-	1,102
• Loans and advances to customers	-	168	-	168
Total debt securities	1,102	168	-	1,270
1.2 Contingent Risks -				
• Financial bank guarantees	-	-	206	206
Total contingent liabilities	-	-	206	206
1.3 Other exposures -	-	-	-	-
Total	**1,102**	**168**	**206**	**1,476**
2. Specifically identified impairment losses				
2.1 Debt securities -				
• Loans and advances to credit institutions	-	79	-	79
• Debt instruments	-	29,253	-	29,253
• Loans and advances to customers	-	54,725	-	54,725
Total debt securities	-	84,057	-	84,057
2.2 Contingent Risks -	-	-	-	-
2.3. Other exposures -	-	-	-	-
Total	**-**	**84,057**	**-**	**84,057**
Total impairment losses (1+2)	**1,102**	**84,225**	**206**	**85,533**

A previously stated, pursuant to the applicable legislation, the Bank does not calculate impairment losses due to credit risk on equity instruments owned by it (impairment losses on these financial assets are calculated as set forth in Note 2.3) or on debt instruments classified as at fair value through profit or loss since, because they are carried at fair value, any changes in fair value due to credit risk are recognized immediately in the income statement. Accordingly, these impairment losses are not included in the foregoing tables.

22.9. Past-due but not impaired assets

At 31 December 2018 and 2017 the Bank had not recognized any material past-due but not impaired assets in its financial statements.

22.10. Write-off of impaired financial assets

At 31 December 2018 and 2017 the Bank did not have any material financial assets that, pursuant to the criteria set forth in Note 2, had been written off due to credit risk, and there were no significant changes in this connection during those years.

22.11. Exposure to real estate risk

The only operations granted by the Bank at 31 December 2018 and 2017 concerning real state exposure are those loans intended to be used for housing acquisition, which are granted to its employees. Following is a detail of the latter:

	Thousands of Euros			
	31 December 2018		31 December 2017	
	Gross amount	*From which: Doubtful*	Gross amount	*From which: Doubtful*
Credit for house purchase -				
Without mortgage guarantee	210	*8*	2,598	*9*
With mortgage guarantee	44,821	*419*	46,143	*292*
	45,031	*427*	48,741	*301*

Following is the breakdown of credit with mortgage guarantee to households for house purchase, according to the percentage represented by the total risk over the amount of the last available valuation (loan to value) included in this balance sheets heading as of 31 December 2018 and 2017:

31 December 2018:

	Thousands of Euros					
	Risk over the amount of the last available valuation					
	Less or equal than 40%	More than 40% and less or equal than 60%	More than 60% and less or equal than 80%	More than 80% and less or equal than 100%	More than 100%	Total
Gross amount	12,066	12,946	9,937	5,698	4,174	44,821
From which: Non-performing	-	*68*	*248*	*103*	-	*419*

31 December 2017:

	Thousands of Euros					
	Risk over the amount of the last available valuation					
	Less or equal than 40%	More than 40% and less or equal than 60%	More than 60% and less or equal than 80%	More than 80% and less or equal than 100%	More than 100%	Total
Gross amount	8,401	6,716	15,808	10,432	4,786	46,143
From which: Non-performing	*107*	-	*69*	*116*	-	*292*

22.12. Other disclosures on credit risk

The amount of accrued, past-due uncollected receivables on impaired financial assets was not material at 31 December 2018 or 2017 or in the years then ended.

In 2018 and 2017 no guarantees associated with financial assets owned by the Bank were executed in order to guarantee the collection thereof.

23. Exposure to market risk

Market risk is defined as the risk that affects results or capital as a result of adverse changes in the prices of bonds, securities and commodities and in the exchange rates of transactions recognized in the trading book. This risk arises in market making and trading activities and the taking of positions in bonds, securities, foreign currencies, commodities and derivatives (on bonds, securities, currencies and commodities). This risk includes foreign currency risk, which is defined as the actual or potential risk that affects results or capital as a result of adverse changes in exchange rates in the banking book.

The exposure direct to market risk arises from several financial factors affecting market prices. These factors include mainly, but not only, the following:

Interest rates risk

Interest rate risk is the exposure to market fluctuations due to changes in the general level of interest rates.

Currency

The currency risk to which the Bank is exposed arises from its FX activities in the international capital markets.

Variable income

Represents the risk of incurring losses as a result of a change in stock prices.

Value at Risk (“VaR”) provides an integrated measure of market risk and encompasses the basic elements thereof: interest rate risk, foreign currency risk, equity risk and the risk of volatility of the foregoing factors.

The distribution of the VaR of the trading book by desk at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Money and currency markets	874	1,024
Forex products	550	390
Debt table	1,239	780
Variable income table	257	527
Derivatives products	493	260
Credit table	165	135
Banknotes	21	27

For the operation in certain types of complex exotic options, for which risk management and measurement is very complicated, the general policy is to eliminate this portfolio risk by contracting back to back operations (mirror) in the market .

The Board of Directors establishes global limits as part of the establishment of the risk tolerance framework. The limit structure is based on the VaR methodology mentioned above and on the values of maximum real loss authorized with different time horizons.

24. Liquidity risk

Liquidity risk is defined as:

- The uncertainty regarding the availability, at reasonable prices, of funds to enable Cecabank to meet its commitments when recourse to external financing is difficult for a particular period of time.
- The maintenance or generation of levels of liquidity required to finance future business growth.

In other words, this risk reflects the probability of incurring losses or having to reject new business or growth in current business as a result of being unable to meet commitments normally when they fall due or being unable to finance additional needs at market rates. In order to mitigate this risk, the Bank periodically monitors its liquidity conditions and assesses any action that may be required. Furthermore, the Bank has planned measures to enable it to restore the Bank's overall financial equilibrium in the event of a possible shortfall in liquidity.

Liquidity risk management consists of ensuring the availability at all times of the instruments and processes that will enable the Bank to meet its payment commitments on a timely basis, in such a manner that it will have the resources required to maintain sufficient liquidity levels to meet its payments without significantly compromising the Bank's results, and maintain the mechanisms which will enable it to meet those payment commitments if various possible scenarios should arise.

Generally speaking, the Bank has traditionally had various means of raising liquidity, including that of attracting customer deposits, the use of various cash facilities made available by official agencies, and the obtainment of liquidity through the interbank market.

The liquidity gap is the profile of maturities and settlements by risk type (assets and liabilities classified by residual maturity plus the interest flows arising from all the balance sheet aggregates) and shows the mismatch structure in the balance sheet in terms of cash inflows and outflows.

It reflects the liquidity level maintained under normal market conditions. This measure provides information on contractual and non-contractual cash inflows and outflows (pursuant to historical-behaviour based assumptions to which statistical analyses are applied).

Following is a detail at 31 December 2018 and 2017 of the Bank's main financial assets and liabilities (other than derivatives) at those dates, classified by residual maturity and estimated on the basis of their contractual conditions, excluding the related valuation adjustments:

Detail at 31 December 2018:

	Thousands of Euros						
	Demand Deposits	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total
Assets:							
Cash, cash balances at central banks and other demand deposits	3,267,077	-	-	-	-	-	3,267,077
Financial assets held for trading - Debt securities	-	-	29,274	29,447	293,777	400,198	752,696
Financial assets held for trading - Other equity instruments	-	-	-	240,744	-	-	240,744
Non trading financial assets mandatorily at fair value through profit or loss - equity instrument	-	-	-	-	-	19,093	19,093
Non trading financial assets mandatorily at fair value through profit or loss - Debt securities	-	-	6	-	20,487	20,827	41,320
Financial assets designated at fair value through profit or loss - Loans and advances to credit institutions	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income - Debt instruments (*)	-	-	90,126	107,545	1,029,702	241,916	1,469,289
Financial assets at fair value through other comprehenvise income - Other equity instruments (**)	-	-	-	-	-	10,295	10,295
Financial assets at amortised cost - Loans and advances to credit institutions	648,043	931,917	174,265	18,385	-	152,179	1,924,789
Financial assets at amortised cost - Loans and advances to customers	270,288	124,212	47	7,397	37,667	97,654	537,265
Financial assets at amortised cost - Debt instruments	-	-	-	-	-	23,150	23,150
Total at 31 December 2018	**4,185,408**	**1,056,129**	**293,718**	**403,518**	**1,381,633**	**965,312**	**8,285,718**
Liabilities:							
Financial liabilities held for trading - short positions	-	366,666	43,168	-	-	-	409,834
Financial liabilities at amortized cost - Deposits from central banks	-	349,238	-	-	-	-	349,238
Financial liabilities at amortized cost - Deposits from credit institutions	750,743	428,047	-	24,144	-	-	1,202,934
Financial liabilities at amortized cost - Customer deposits	5,029,629	76,604	-	4,506	4,452	616	5,115,807
Total at 31 December 2018	**5,780,372**	**1,220,555**	**43,168**	**28,650**	**4,452**	**616**	**7,077,813**
Difference (assets less liabilities) at 31 December 2018	**(1,594,964)**	**(164,426)**	**250,550**	**374,868**	**1,377,181**	**964,696**	**1,207,905**

(*) Including valuation adjustments relating to accrued interest and valuation gains or losses.
(**) Presented at fair value.

Detail at 31 December 2017:

	Thousands of Euros						
	Demand Deposits	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total
Assets:							
Cash, cash balances at central banks and other demand deposits	2,656,780	-	-	-	-	-	2,656,780
Financial assets held for trading - Debt securities	-	30,992	38,281	158,952	368,206	229,455	825,886
Financial assets held for trading - Other equity instruments	-	-	-	287,482	-	-	287,482
Non trading financial assets mandatorily at fair value through profit or loss – equity instrument	-	-	-	-	-	-	-
Non trading financial assets mandatorily at fair value through profit or loss – Debt securities	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss - Loans and advances to credit institutions	-	247,096	9,836	-	-	-	256,932
Financial assets at fair value through other comprehensive income - Debt instruments (*)	-	634,416	182,278	272,030	494,004	151,919	1,734,647
Financial assets at fair value through other comprehenvise income - Other equity instruments (**)	-	-	-	-	-	38,716	38,716
Financial assets at amortised cost - Loans and advances to credit institutions	1,726,076	32,730	-	-	-	-	1,758,806
Financial assets at amortised cost - Loans and advances to customers	623,100	158,456	141,012	22,531	-	-	945,099
Financial assets at amortised cost - Debt instruments	-	11,068	958	15,005	-	23,953	50,984
Total at 31 December 2017	**5,005,956**	**1,114,758**	**372,365**	**756,000**	**862,210**	**444,043**	**8,555,332**
Liabilities:							
Financial liabilities held for trading - short positions	-	106,677	277,935	9,325	-	-	393,937
Financial liabilities at amortized cost - Deposits from central banks	-	-	-	-	-	-	-
Financial liabilities at amortized cost - Deposits from credit institutions	562,876	238,988	45,868	10,639	-	-	858,371
Financial liabilities at amortized cost - Customer deposits	5,265,346	267,235	19	86	336	676	5,533,698
Total at 31 December 2017	**5,828,222**	**612,900**	**323,822**	**20,050**	**336**	**676**	**6,786,006**
Difference (assets less liabilities) at 31 December 2017	**(822,266)**	**501,858**	**48,543**	**735,950**	**861,874**	**443,367**	**1,769,326**

(*) Including valuation adjustments relating to accrued interest and valuation gains or losses.
(**) Presented at fair value.

With a view to the correct interpretation of the information contained in the foregoing tables, it should be stated that the assets and liabilities were classified therein in accordance with their contractual terms and conditions and, accordingly, there are liabilities, such as current accounts on the liability side of the balance sheet, which are more stable and more permanent than “on demand” (the criteria used to classify them in the foregoing tables). Also, the assets classified as financial assets held for trading will generally be realized earlier than their respective maturity dates (the criterion used to classify them in the foregoing table).

It is also worthy of note that asset and liability trading derivatives were not included in the foregoing tables due to the differences that might exist between their fair value at the date on which they were recognized and their possible settlement value and due to the fact that, considering the Bank's operations with these products and the symmetry of, and economic hedging performed between, the positions bought and sold, their inclusion would not have a significant impact on the liquidity gap shown in the foregoing tables. Nor do the foregoing tables include hedging derivatives, as their impact was not considered important from the standpoint of the information shown therein.

The Bank also monitors the available liquid assets in order to identify possible sources of liquidity to be used in the event of a liquidity contingency.

The Board of Directors, as part of its oversight function, establishes a framework of liquidity risk limits geared towards ensuring that the Bank complies comfortably with regulatory requirements vis-à-vis its liquidity position, and that it continues to perform transactions on the markets and conduct its business activity in such a way as to ensure the sufficient diversification of its sources of funds. These limits are set on the basis of a series of liquidity ratios whose purpose is to assess and measure the Bank's on-balance-sheet liquidity.

Stress tests are also carried out, combining various scenarios involving restricted access to capital markets, a mass withdrawal of demand deposits, the drawdown of contingent liquidity commitments, and other external market conditions.

In addition, a series of liquidity-crisis early-warning and intensity indicators are monitored on a daily basis and a detailed, permanently updated inventory is kept of the on-balance-sheet assets that are readily convertible into cash.

25. Interest rate risk

Structural on-balance-sheet interest rate risk can be defined as the exposure of an entity's financial and economic position to adverse changes in interest rates, resulting from timing mismatches between the maturity and repricing dates of global balance sheet items. This risk is a quintessential element of the banking business and can have a major effect on the financial margin and the economic value of equity. Consequently, a risk management capable of maintaining interest rate risk at prudent levels is indispensable in order to safeguard and bolster the Bank's position (see Notes 2.6 and 9).

The Bank's business and management efforts focus on achieving a stable, recurring earnings structure and are geared towards preserving the economic value of equity, with a view to guaranteeing the orderly growth of the Bank in the long term.

To attain the objectives described above the Bank has created an on-balance-sheet structural risk limit structure to guarantee that risk exposure levels are within the tolerance level set by senior management. The Board of Directors defines the general framework for the management of the balance sheet and approves the risk limits based on its risk tolerance. Structural risks are managed at short, medium and long term using limits that are approved by the Board itself and monitored on a monthly basis.

Thus, certain limits are set in terms of sensitivity to changes in market interest rates. These changes affect both net interest income and economic value.

Senior management is actively involved in on-balance-sheet risk management through the Asset-Liability Committee (ALCO). This committee is responsible for taking the action required to correct any possible on-balance-sheet risk imbalances.

In order to measure, analyze and control the structural risk management of the balance sheet, an analysis is carried out to measure the excess or defect of the volume of sensitive assets against the sensitive liability, such as unmarried volume (and therefore not covered) and subject to possible variations in interest rates. In this way, exposure to risk is identified by studying the concentration of masses with risk of repricing for temporarily significant periods.

Similarly to include a dynamic analysis of the balance sheet to various interest rate scenarios, performs simulations of the performance of the net interest margin over a time horizon of one year. This enables it to analyze the effect of changes due to fluctuations in interest rates based on the repricing gaps of the various balance sheet items.

To complete these sensitivity measures, a methodology which is similar to Market VaR is applied to allow the economic value of the capital at risk to be calculated for a one-month time horizon with a confidence level of 99%, taking into account all the risk factors which affect the balance sheet.

26. Risk concentration

26.1 Risk concentration by activity and geographical area

Following is a detail, by geographical area of residence of the counterparty, type and category of financial instrument, of the distribution of the carrying amount of the Bank's financial assets at 31 December 2018 and 2017 (including valuation adjustments):

Risk Concentration by activity and geographical area. Total activity (book value):

31 December 2018:

	Thousands of Euros				
	TOTAL	Spain	Rest of the European Union	America	Rest of the world
Credit Institutions	**6,015,077**	**5,063,950**	**854,043**	**69,562**	**27,522**
Public Administrations	**1,899,999**	**839,431**	**1,060,568**	**-**	**-**
• Central Administration	1,553,330	492,762	1,060,568	-	-
• Other	346,669	346,669	-	-	-
Other Credit Institutions	**908,839**	**744,840**	**153,573**	**9,992**	**434**
Non- financial societies and individual entrepreneurs	**302,024**	**244,545**	**56,485**	**-**	**994**
• Construction and property development	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-
• Other purposes	302,024	244,545	56,485	-	994
- Large companies	298,415	240,936	56,485	-	994
- SMEs and Individual entrepreneurs	3,609	3,609	-	-	-
Rest of households and NPISHs	**49,930**	**49,790**	**140**	**-**	-
• Houses	46,500	46,362	138	-	-
• Consumption	2,634	2,632	2	-	-
• Other purposes	796	796	-	-	-
Total	**9,175,869**	**6,942,556**	**2,124,809**	**79,554**	**28,950**

31 December 2017

	Thousands of Euros				
	TOTAL	Spain	Rest of the European Union	America	Rest of the world
Credit Institutions	**5,584,780**	**4,721,414**	**754,297**	**92,739**	**16,330**
Public Administrations	**2,212,579**	**1,623,582**	**588,997**	**-**	**-**
• Central Administration	1,762,769	1,173,772	588,997	-	-
• Other	449,810	449,810	-	-	-
Other Credit Institutions	**1,362,376**	**1,136,156**	**213,172**	**12,531**	**517**
Non- financial societies and individual entrepreneurs	**277,769**	**226,791**	**48,979**	**-**	**1,999**
• Construction and property development	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-
• Other purposes	277,769	226,791	48,979	-	1,999
- Large companies	274,862	223,884	48,979	-	1,999
- SMEs and Individual entrepreneurs	2,907	2,907	-	-	-
Rest of households and NPISHs	**52,135**	**51,969**	**166**	**-**	-
• Houses	46,877	46,725	152	-	-
• Consumption	2,345	2,341	4	-	-
• Other purposes	2,913	2,903	10	-	-
Total	**9,489,639**	**7,759,912**	**1,605,611**	**105,270**	**18,846**

Risk Concentration by activity and geographical area. Total activity (book value):

31 December 2018

	Thousands of Euros									
		Autonomous communities								
	TOTAL	Andalucía	Aragón	Asturias	Baleares	Canarias	Cantabria	Castilla - La Mancha	Castilla León	Cataluña
Credit Institutions	**5,063,950**	**100,471**	**76,972**	**-**	**1,275**	**-**	**408,358**	**45,015**	**-**	**-**
Public Administrations	**839,431**	**82,166**	**17,081**	**-**	**-**	**-**	**-**	**63,637**	**4,549**	**-**
• Central Administration	492,762	-	-	-	-	-	-	-	-	-
• Other	346,669	82,166	17,081	-	-	-	-	63,637	4,549	-
Other Credit Institutions	**744,840**	**25,347**	**-**	**-**	**540**	**-**	**-**	**-**	**18,318**	**7,468**
Non- financial societies and individual entrepreneurs	**244,545**	**117**	**-**	**377**	**923**	**-**	**-**	**-**	**-**	**26,585**
• Construction and property development	-	-	-	-	-	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-	-	-	-	-	-
• Other purposes	244,545	117	-	377	923	-	-	-	-	26,585
- Large companies	240,936	117	-	377	905	-	-	-	-	25,693
- SMEs and Individual entrepreneurs	3,609	-	-	-	18	-	-	-	-	892
Rest of households	**49,790**	**1**	**-**	**-**	**-**	**-**	**-**	**320**	**201**	**1**
• Houses	46,362	-	-	-	-	-	-	312	201	-
• Consumption	2,632	1	-	-	-	-	-	8	-	-
• Other purposes	796	-	-	-	-	-	-	-	-	1
Total	**6,942,556**	**208,102**	**94,053**	**377**	**2,738**	**-**	**408,358**	**108,972**	**23,068**	**34,054**

	Thousands of Euros								
	Autonomous communities								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Com. Valenciana	País Vasco	La Rioja	Ceuta y Melilla
Credit Institutions	**-**	**382,080**	**3,314,780**	**-**	**-**	**531,537**	**203,462**	**-**	**-**
Public Administrations	**-**	**12,651**	**109,214**	**7,639**	**8,777**	**40,538**	**417**	**-**	**-**
• Central Administration	-	-	-	-	-	-	-	-	-
• Other	-	12,651	109,214	7,639	8,777	40,538	417	-	-
Other Credit Institutions	**-**	**19,318**	**673,847**	**-**	**-**	**-**	**2**	**-**	**-**
Non- financial societies and individual entrepreneurs	**-**	**25,486**	**161,411**	**-**	**1,220**	**180**	**28,192**	**54**	**-**
• Construction and property development	-	-	-	-	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-	-	-	-	-
• Other purposes	-	25,486	161,411	-	1,220	180	28,192	54	-
- Large companies	-	25,486	158,946	-	1,220	-	28,192	-	-
- SMEs and Individual entrepreneurs	-	-	2,465	-	-	180	-	54	-
Rest of households	**-**	**-**	**49,264**	**-**	**-**	**2**	**-**	**1**	**-**
• Houses	-	-	45,849	-	-	-	-	-	-
• Consumption	-	-	2,620	-	-	2	-	1	-
• Other purposes	-	-	795	-	-	-	-	-	-
Total	**-**	**439,535**	**4,308,516**	**7,639**	**9,997**	**572,257**	**232,073**	**55**	**-**

31 December 2017

	TOTAL	Thousands of Euros								
		Autonomous communities								
		Andalucía	Aragón	Asturias	Baleares	Canarias	Cantabria	Castilla - La Mancha	Castilla León	Cataluña
Credit Institutions	**4,721,414**	**68,293**	**1,040**	**-**	**1,610**	**-**	**1,015,766**	**156,627**	**-**	**1**
Public Administrations	**1,623,582**	**77,135**	**15,899**	**981**	**-**	**-**	**-**	**64,687**	**105,318**	**-**
• Central Administration	1,173,772	-	-	-	-	-	-	-	-	-
• Other	449,810	77,135	15,899	981	-	-	-	64,687	105,318	-
Other Credit Institutions	**1,136,156**	**27,819**	**-**	**27**	**297**	**2**	**-**	**-**	**18,446**	**24,552**
Non- financial societies and individual entrepreneurs	**226,791**	**-**	**-**	**76**	**2,680**	**-**	**-**	**-**	**-**	**28,888**
• Construction and property development	-	-	-	-	-	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-	-	-	-	-	-
• Other purposes	226,791	-	-	76	2,680	-	-	-	-	28,888
- Large companies	223,884	-	-	76	2,665	-	-	-	-	28,840
- SMEs and Individual entrepreneurs	2,907	-	-	-	15	-	-	-	-	48
Rest of households	**51,969**	**2**	**-**	**-**	**-**	**-**	**-**	**351**	**218**	**-**
• Houses	46,725	-	-	-	-	-	-	297	218	-
• Consumption	2,341	2	-	-	-	-	-	12	-	-
• Other purposes	2,903	-	-	-	-	-	-	42	-	-
Total	**7,759,912**	**173,249**	**16,939**	**1,084**	**4,587**	**2**	**1,015,766**	**221,665**	**123,982**	**53,441**

	Thousands of Euros								
	Autonomous communities								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Com. Valenciana	País Vasco	La Rioja	Ceuta y Melilla
Credit Institutions	**-**	**72,189**	**3,039,873**	**-**	**-**	**290,391**	**75,624**	**-**	**-**
Public Administrations	**-**	**34,021**	**115,455**	**7,900**	**-**	**-**	**28,414**	**-**	**-**
• Central Administration	-	-	-	-	-	-	-	-	-
• Other	-	34,201	115,455	7,900	-	-	28,414	-	-
Other Credit Institutions	**-**	**19,876**	**1,045,137**	**-**	**-**	**-**	**-**	**-**	**-**
Non- financial societies and individual entrepreneurs	**-**	**27,507**	**143,927**	**-**	**1,244**	**177**	**22,238**	**54**	**-**
• Construction and property development	-	-	-	-	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-	-	-	-	-
• Other purposes	-	27,507	143,927	-	1,244	177	22,238	54	-
- Large companies	-	27,507	141,314	-	1,244	-	22,238	-	-
- SMEs and Individual entrepreneurs	-	-	2,613	-	-	177	-	54	-
Rest of households	**-**	**-**	**51,393**	**-**	**-**	**4**	**-**	**1**	**-**
• Houses	-	-	46,210	-	-	-	-	-	-
• Consumption	-	-	2,322	-	-	4	-	1	-
• Other purposes	-	-	2,861	-	-	-	-	-	-
Total	**-**	**153,593**	**4,395,785**	**7,900**	**1,244**	**290,572**	**126,276**	**55**	**-**

26.2. Concentration of equity instruments

Following is a detail, by type of market listing, if any, and issuer, of the equity instruments held by the Bank at 31 December 2018 and 2017:

31 December 2018:

	Thousands of Euros				
	Financial assets held for Trading (Note 6.1)	**Non trading financial assets mandatorily at fair value through profit or loss (Note 6.2)**	**Financial assets at fair value through other comprehensive income (Note 7)**	**Non-current assets for sale (Note 10)**	**Total**
By market listing-					
Shares listed in the Spanish secondary market	238,711	4,918	-	-	243,629
Shares listed in secondary markets in the rest of the	2,033	225	-	-	2,258
Unlisted shares	-	13,950	10,295	1,019	25,264
	240,744	19,093	10,295	1,019	271,151
By issuer type-					
Spanish financial institutions	103,269	18,868	-	-	122,137
Other Spanish companies	135,442	-	10,023	1,015	146,480
Other foreign companies	2,033	225	272	4	2,534
	240,744	19,093	10,295	1,019	271,151

31 December 2017

	Thousands of Euros				
	Financial assets held for Trading (Note 6.1)	**Non trading financial assets mandatorily at fair value through profit or loss (Note 6.2)**	**Financial assets at fair value through other comprehensive income (Note 7)**	**Non-current assets for sale (Note 10)**	**Total**
By market listing-					
Shares listed in the Spanish secondary market	284,795	-	12,859	-	297,654
Shares listed in secondary markets in the rest of the world	2,687	-	6,146	-	8,833
Unlisted shares	-	-	19,711	1,015	20,726
	287,482	**-**	**38,716**	**1,015**	**327,213**
By issuer type-					
Spanish financial institutions	126,759	-	17,511	-	144,270
Other Spanish companies	158,036	-	14,815	1,015	173,866
Other foreign companies	2,687	-	6,390	-	9,077
	287,482	**-**	**38,716**	**1,015**	**327,213**

27. Other significant disclosures

27.1 Commitments and Contingent liabilities

“Financial Guarantees Provided” are defined as the amounts that would be payable by the Bank on behalf of third parties as a result of the commitments assumed by the Bank in the course of its ordinary business, if the parties who are originally liable to pay fail to do so.

Also, contingent commitments are possible obligations for the Group that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group and that may give rise to the recognition of financial assets.

The breakdown of the balance of Memorandum Items in the balance sheets at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
Loan commitments given (Note 22.2)-		
General governments	100,000	25,000
Other financial corporations	19,339	110,192
Non-financial corporations	79,056	45,460
Households	1,207	811
	199,602	181,463
Financial guarantees given (Note 22.2)-		
Credit institutions	52	50
	52	50
Other commitments given (Note 22.2)-		
Credit institutions	179,445	505,518
Other financial corporations	853	1,811
Non-financial corporations	2,691	2,728
Households	101	106
	183,090	510,163
	382,744	**691,676**

A significant portion of these guarantees will expire without any payment obligation materializing for the Bank and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Bank to third parties.

“Financial Guarantees Given” and “Other Commitments Given” include financial guarantees amounting to EUR 70,397 thousand at 31 December 2018 (31 December 2017: EUR 67,214 thousand).

The fee and commission income from these financial guarantees is recognized under “Fee and Commission Income” in the income statement on an accrual basis (see Note 31).

The provisions made to cater for the financial guarantees provided, which were calculated using criteria similar to those applied in the calculation of the impairment of financial assets measured at amortized cost, of which amounted to EUR 274 thousand at 31 December 2018 (31 December 2017: EUR 206 thousand), were recognized under “Provisions - Provisions for Contingent Liabilities and Commitments” in the balance sheet (see Note 16).

Note 22 contains disclosures relating to the credit risk assumed by the Bank in connection with such financial guarantees provided and contingent commitments made.

27.2. Assets delivered as security

At 31 December 2018 and 2017, assets owned by the Bank had been provided as security for transactions performed by it, as well as for various liabilities and contingent liabilities assumed by the Bank. The nominal amount, of the financial assets delivered as security for these liabilities, contingent liabilities and similar items at 31 December 2018 and 2017 was as follows:

	Thousands of Euros	
	2018	**2017**
Spanish Public Debt classified as financial assets at fair value through other comprehensive income	575,870	194,678
Other Assets classified as financial assets at fair value through other comprehensive income	45,000	150,000
Spanish Public Debt classified as financial Assets Held for Trading	16,300	91,300
Issued securities by other public organisms classified as financial assets at fair value through other comprehensive income	81,700	109,500
Issued securities by other public organisms classified as financial Assets Held for Trading	-	15,000
Issued Public Debt by no residents public administrations classified as financial assets at fair value through other comprehensive income	352,188	475,000
Issued Public Debt by no residents public administrations classified as financial Assets Held for Trading	-	10,000
	1,071,058	1,045,478

At 31 December 2018 and 2017, the Bank had securities with a face value of EUR 27,536 and 71,233 thousand respectively as security for the performance of the Bank's obligations relating to transactions with the clearing and settlement services.

At 31 December 2018, the Bank had entered into repurchase agreements for securities in its portfolio and reverse repurchase agreements for a total amount of EUR 306,030 thousand (31 December 2017: EUR 281,404 thousand).

"Memorandum Item: Loaned or Advanced as Collateral", which is shown in each of the Bank's financial asset categories in the balance sheets at 31 December 2018 and 2017, includes the amount of financial assets transferred, lent out or delivered as security in which the assignee is entitled, contractually or by custom, to retransfer them or pledge them as security, such as securities lending transactions or sales of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest.

27.3. Transactions for the account of third parties

The breakdown of the most significant transactions for the account of third parties at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
Financial instruments granted to third parties-		
Debt instruments	78,887,084	82,710,839
Equity instruments	54,428,331	57,001,551
	133,315,415	139,712,390
Other financial assets	20,505,195	21,811,307
	153,820,610	161,523,697
Conditional bills and other securities received for collection	112,058	212,749
Borrowed securities (Note 27.4)	68,272	54,644
	154,000,940	**161,791,090**

"Financial Instruments Entrusted by Third Parties" in the foregoing table includes mainly the debt securities and equity instruments held by the Bank under the contracts in force for third-party security depository and custody services.

27.4 Financial assets lent and borrowed

Pursuant to current legislation, the securities received by the Bank in securities lending transactions are not recognized in the balance sheet unless the Bank sells these securities in short sales transactions, in which case they are recognized as financial liabilities under "Financial Liabilities Held For Trading - Short Positions" on the liability side of the balance sheet.

Similarly, securities lending transactions in which the Bank lends securities to third parties are not recognized in the balance sheet. The securities lent can be securities previously lent to the Bank or securities owned by it, and in the latter case these are not derecognized.

Deposits provided or received as security or guarantee for the securities received or lent by the Bank, respectively, are accounted for as a financial asset or a financial liability, respectively, and the interest associated therewith is recognized as interest and similar income or as interest expense and similar charges, respectively, in the income statement, by applying the corresponding effective interest rate.

Following is a detail of the fair value of the financial assets borrowed by the Bank at 31 December 2018 and 2017:

	Thousands of Euros	
	2018	**2017**
Equity instruments	-	6,944
Debt instruments	-	29,915
	-	**36,859**

Following is a detail of the fair value of the financial assets borrowed and lent by the Bank in securities lending transactions at 31 December 2018 and 2017:

	Thousands of Euros	
	2018	**2017**
Securities borrowed by the Bank-		
Debt instruments issued by Public sector - Spain (Note 27.3)	68,272	54,644
	68,272	**54,644**

27.5 The Bank's Customer Care Service

Set forth below is a summary of the complaints and claims received by the Bank's Customer Care Service in 2018 and 2017. Certain claims submitted to the Service were not admitted for consideration in 2018 and 2017 because they were claims that affected entities other than the Bank:

	2018	**2017**
Number of complaints and claims received	3	4
Number of complaints and claims not admitted for considerations	2	4
Number of complaints and claims admitted for consideration	1	-
Number of complaints and claims resolved	1	-
Number of complaints and claims resolved in favour of the complainant	-	-
Number of complaints and claims resolved against the claimant	1	-
Compensation paid to claimants (euros)	-	-
Number of complaints and claims outstanding	-	-

28. Interest income

The breakdown of the most important interest income earned by the Bank in 2018 and 2017, by type of instrument giving rise to it, is as follows:

	Thousands of Euros	
	2018	**2017**
Financial assets held for trading	14,344	17,419
Non trading financial assets mandatorily at fair value through profit or loss	6,638	-
Financial assets designated at fair value through profit or loss	-	1
Financial assets at fair value through other comprehensive income	29,145	36,742
Financial assets at amortised cost	6,346	5,066
Derivatives – hedge accounting, interest rate risk	6,131	2,630
Interest income on financial liabilities	26,776	25,069
Other assets	675	2,714
	90,055	**89,641**

"Interest Income on Financial Liabilities" in the table above includes the income arising in 2018 and 2017, respectively, from the Bank's on-balance-sheet financial liabilities that bore negative interest rates.

29. Interest expenses

The detail of the balance of "Interest Expenses" in the income statement for 2018 and 2017, by type of instrument giving rise to them, is as follows:

	Thousands of Euros	
	2018	**2017**
Financial liabilities held for trading	10,149	14,229
Financial liabilities at amortized cost	24,709	13,678
Derivatives – hedge accounting, interest rate risk	4,953	-
Interest Expenses on financial assets / other liabilities	43,868	43,185
Interest cost of pension funds (Note 35)	68	150
	83,747	**71,242**

"Interest Expenses on Financial Assets / other liabilities" in the table above includes the expenses arising in 2018 from the Bank's on-balance-sheet financial assets that bore negative interest rates.

30. Income from dividends

Below is a breakdown of this caption in the income statement for 2018 and 2017:

	Thousands of Euros	
	2018	**2017**
Financial assets held for trading	12,803	34,708
Non-trading financial assets mandatorily at fair value through profit or loss	1,723	-
Financial assets at fair value through other comprehensive income	673	4,766
	15,199	**39,474**

The decrease in 2018 in the balance of "Financial Assets Held for Trading" arose mainly because in 2017 the Bank received dividends on its shares in Iberdrola, amounting to EUR 27,218 thousand.

31. Commission income

Following is a detail of the commission income earned in 2018 and 2017, classified on the basis of the main items giving rise thereto:

	Thousands of Euros	
	2018	**2017**
Commissions arising from contingent liabilities (Note 27.1)	289	280
Commissions for contingent commitments	267	33
Commissions arising from collection and payment services	25,839	26,438
Commissions arising from securities services	98,356	99,072
Commissions arising from foreign exchange and foreign banknotes	260	348
Other commissions	9,348	10,115
	134,359	**136,286**

The balance of "Fees and Commissions Arising from Securities Services" in the foregoing table includes, inter alia, EUR 93,596 thousand earned in 2018 (2017: EUR 94,005 thousand) relating to the depository and custody services in connection with securities of third parties deposited at the Bank.

32. Commission expenses

Following is a detail of the commission expenses incurred in 2018 and 2017, classified on the basis of the main items giving rise thereto:

	Thousands of Euros	
	2018	2017
Commissions assigned to other entities and correspondents	5,983	6,543
Commission expenses on securities transactions	9,189	8,351
	15,172	14,894

33. Net gains/losses on financial assets and liabilities

The breakdown of the balance of "Gains/Losses on Financial Assets and Liabilities" in the income statement for the exercise 2018 and 2017, by type of financial instrument giving rise to them, is as follows:

	Thousands of Euros	
	2018	2017
Net gains/losses on financial assets and liabilities held for trading	(15,900)	(33,606)
Gains (losses) on non trading financial assets mandatorily at fair value through profit or loss, net	(4,477)	-
Net gains/losses from unsubscribe financial assets and liabilities not valued at fair value through profit or loss, net-		
Financial assets at amortised cost	3	3
Other financial assets and liabilities	23,427	10,636
Net gains/losses on financial assets and liabilities designated at fair value through profit or loss	(10)	(18)
Net gains/losses resulting from hedge accounting	(3,824)	(4,798)
	(781)	(27,783)

34. Other operating income

The breakdown of the balance of "Other Operating Income" in the income statement for exercise 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Rental income (Note 12)	1,279	1,173
Income from expenses charged	12,130	19,778
Other income	34,858	29,807
	48,267	50,758

The balance of "Other income" in the foregoing table includes the dues collected from the services given to the Confederación Española de Cajas de Ahorros, which amounts in 2018 EUR 11,386 thousand (11,388 thousand in 2017) (see Note 40).

35. Administrative expenses – Staff Costs

The detail of "Administrative Expenses – Staff Costs" in the income statement for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
Wages and salaries	40,383	41,874
Social security costs	7,293	7,201
Insurance premiums (Note 2.11.2)	181	427
Termination Benefits (Note 2.11.4)	785	-
Contributions to defined contribution plans (Note 2.11.2)	698	898
Normal cost for the year of defined benefit obligations	13	17
Training expenses	320	170
Other staff costs	1,369	606
	51,042	51,193

As a result of the obligations imposed by the Spanish law on the regulation and supervision of credit institutions and its implementing regulations, and by the EBA guidelines on sound remuneration policies, the Bank pays a portion of the annual variable remuneration of certain employee groups through non-monetary instruments linked to the Bank's value.

The number of the aforementioned equity instruments to be granted to certain members of the identified staff will be conditional on: (i) the annual variable remuneration granted to them; and (ii) the change in the Entity's valuation from the instruments' grant date. Once the amount of the annual variable remuneration has been determined for each member of the identified staff, 50% thereof will be granted in phantom shares.

These instruments will be settled once any retention and deferral periods have elapsed, in accordance with the policy for each member of the identified staff. Following the retention period, the phantom shares will be settled in cash on each of the settlement dates based on the Bank's value at each of these dates. The valuation method used to measure the Entity's value for the purpose of the variable remuneration to be paid through instruments must be based on the equity at 31 December of each year (considering as such the sum of capital, reserves and the portion of profit for the year attributable to reserves).

The settlement schedule for the phantom shares will be the schedule applicable under the policy in force from time to time for each member of the identified staff, on completion of each of the deferral and retention periods applicable in each case.

In 2018 and 2017, the average number of employees at the Bank, by level, was as follows:

	2018			2017		
Proffesional levels	Men	Women	Total	Men	Women	Total
1 - LEV.I	4	-	4	4	-	4
1 - LEV.II	9	4	13	11	4	15
1 - LEV.III	15	11	26	16	13	29
1 - LEV.IV	32	19	51	31	17	48
1 - LEV.V	33	25	58	32	25	57
1 - LEV.VI	68	60	128	69	60	129
1 - LEV.VII	27	41	68	25	41	66
1 - LEV.VIII	33	64	97	35	65	100
1 - LEV.IX	6	15	21	7	16	23
1 - LEV.X	7	12	19	7	14	21
1 - LEV.XI	9	9	18	7	8	15
1 - LEV.XII	-	1	1	-	1	1
2 - LEV.II	1	-	1	6	-	6
2 - LEV.III	4	-	4	-	-	-
OTHERS	8	6	14	7	6	13
	256	**267**	**523**	**257**	**270**	**527**

The average number of people employed during the 2018 and 2017 exercises, with a disability of 33% or more, broken down by category, was as follows:

Categories	2018	2017
2 - LEV.II	-	1
	-	**1**

At 31 December 2018, the total number of employees was 484 (2017: 515), of whom 242 were men (2017: 252) and 242 women (2017: 263), representing 50% and 50%, respectively (49% and 51% respectively, at 31 December 2017).

Relating to defined benefit post-employment obligations and long-term pre-retirement obligations (pre-retirements) to current and former employees of the Bank described in Note 2.11 above, a detail of these obligations is presented below, making a distinction between those that are instrumented, in full or in part, in pension funds and insurance policies, and those that are not instrumented in this type of instrument and where the associated obligation is covered by the recognition of provisions by the Bank:

At 31 December 2018:

	Thousands of Euros						
	Post-employment benefits			Long-term pre-retirement obligations			
	Value of the obligation (I)	Value of the plan assets (II)	Total (III = I - II) (**)	Value of the obligation (IV)	Value of the plan assets (V)	Total (VI = IV - V) (*)	Total (III + VI)
Instrumented in external pension plans and/or insurance policies	171,878	180,067	(8,189)	-	-	-	(8,189)
Not instrumented in pension plans or insurance policies	-	-	-	49,710	-	49,710	49,710
Total at 31 December 2018	**171,878**	**180,067**	**(8,189)**	**49,710**	**-**	**49,710**	**41,521**

(*) This amount is recognized under "Provisions – Other Long-Term Employee Benefits" on the liability side of the balance sheet as at 31 December 2018 (see Note 16.2).
(**) This amount is recognized under "Other Assets – Other" in the balance sheet as at 31 December 2018 (see Note 14.1).

At 31 December 2017:

	Thousands of Euros						
	Post-employment benefits			Long-term pre-retirement obligations			
	Value of the obligation (I)	Value of the plan assets (II)	Total (III = I - II) (**)	Value of the obligation (IV)	Value of the plan assets (V)	Total (VI = IV - V) (*)	Total (III + VI)
Instrumented in external pension plans and/or insurance policies	188,352	195,859	(7,507)	-	-	-	(7,507)
Not instrumented in pension plans or insurance policies	-	-	-	63,229	-	63,229	63,229
Total at 31 December 2017	**188,352**	**195,859**	**(7,507)**	**63,229**	**-**	**63,229**	**55,722**

(*)This amount is recognized under "Provisions – Other Long-Term Employee Benefits" on the liability side of the balance sheet as at 31 December 2017 (see Note 16.2).
(**) This amount is recognized under "Other Assets – Other" in the balance sheet as at 31 December 2017 (see Note 14.1).

As can be seen in the foregoing table, a significant proportion of the Bank's pension and other long-term obligations are instrumented in external pension plans or are covered by insurance policies and, therefore, in the coming years, the settlement of these obligations is not expected to have a material effect on the Bank's future cash flows. However, the following sections include a sensitivity analysis of the impact that a change in certain variables included in the valuation would have on the amounts presented in these financial statements. In this regard, it should be noted that the average duration of the pension obligations included in the foregoing tables at 31 December 2018 was 26.03 years for assets and 10.54 for liabilities (At 31 December 2017: 27.56 and 11.9 respectively).

Following is the reconciliation of the beginning and ending balances in 2018 and 2017 of the present value of the defined benefit post-employment obligations and long-term pre-retirement obligations, showing separately the plan assets, the present value of these obligations and the items triggering the changes in these items in these years:

Year 2018:

	Thousands of Euros						
	Post-employment benefits			Long-term pre-retirement obligations			
	Value of the obligation (I)	**Value of the plan assets (II)**	**Total (III = I - II)**	**Value of the obligation (IV)**	**Value of the plan assets (V)**	**Total (VI = IV - V)**	**Total (III + VI)**
1. Amount at 1 January 2018	**188,352**	**195,859**	**(7,507)**	**63,229**	**-**	**63,229**	**55,722**
2. Current service cost	13	-	13	-	-	-	13
3. Expected return on plan assets	-	1,911	(1,911)	-	-	-	(1,911)
4. Interest cost	1,837	-	1,837	68	-	68	1,905
5. Contributions made by the participants of the plan	-	-	-	-	-	-	-
6. Contributions made by the Bank	-	7	(7)	-	-	-	(7)
7. Effect of the recalculation on the valuation of the net obligations:	(7,940)	(7,323)	(617)	(1,333)	-	(1,333)	(1,950)
7.1 Actuarial gains and losses arising as a result of changes in the demographic assumptions	1,520	464	1,056				1,056
7.2 Actuarial gains and losses arising as a result of changes in the financial assumptions	(9,460)	(7,787)	(1,673)				(1,673)
7.3 Effect of the change in return on plan assets	-	-	-				
8. Benefits paid	(10,387)	(10,387)	-	(13,164)		(13,164)	(13,164)
9. Past service cost	-	-	-	6,151	-	6,151	6,151
10. Business combinations	-	-	-	-	-	-	-
11. Plan reductions	-	-	-	(5,241)	-	(5,241)	(5,241)
12. Plan settlements	-	-	-	-	-	-	-
13. Limits on the recognition of net assets for exceeding the maximum available economic benefits	-	-	-	-	-	-	-
14. Early retirement commitments in Exercise	-	-	-	-	-	-	-
15. Other movements	3	-	3	-	-	-	3
Amount at 31 December 2018	**171,878**	**180,067**	**(8,189)**	**49,710**	**-**	**49,710**	**41,521**

Year 2017:

	Thousands of Euros						
	Post-employment benefits			Long-term pre-retirement obligations			
	Value of the obligation (I)	Value of the plan assets (II)	Total (III = I - II)	Value of the obligation (IV)	Value of the plan assets (V)	Total (VI = IV - V)	Total (III + VI)
1. Amount at 1 January 2017	**193,664**	**198,835**	**(5,171)**	**76,166**	**-**	**76,166**	**70,995**
2. Current service cost	17	-	17	-	-	-	17
3. Expected return on plan assets	-	2,383	(2,383)	-	-	-	(2,383)
4. Interest cost	2,268	-	2,268	150	-	150	2,418
5. Contributions made by the participants of the plan	-	-	-	-	-	-	-
6. Contributions made by the Bank	-	14	(14)	-	-	-	(14)
7. Effect of the recalculation on the valuation of the net obligations:	2,844	5,068	(2,224)	19	-	19	(2,205)
7.1 Actuarial gains and losses arising as a result of changes in the demographic assumptions	(887)	(378)	(509)				
7.2 Actuarial gains and losses arising as a result of changes in the financial assumptions	3,731	5,446	(1,715)				
7.3 Effect of the change in return on plan assets	-	-	-				
8. Benefits paid	(10,441)	(10,441)	-	(13,200)		(13,200)	(13,200)
9. Past service cost	-	-	-	5,053	-	5,053	5,053
10. Business combinations	-	-	-	-	-	-	-
11. Plan reductions	-	-	-	(4.959)	-	(4,959)	(4,959)
12. Plan settlements	-	-	-	-	-	-	-
13. Limits on the recognition of net assets for exceeding the maximum available economic benefits	-	-	-	-	-	-	-
14. Early retirement commitments in Exercise	-	-	-	-	-	-	-
Amount at 31 December 2017	**188,352**	**195,859**	**(7,507)**	**63,229**	**-**	**63,229**	**55,722**

The amount recognized by the Bank in relation to the current service cost for defined benefit plans in 2018 amounted to EUR 13 thousand. It was recognized under "Administrative Expenses - Staff Costs" in the accompanying income statement (2017: EUR 17 thousand) (See Note 35).

In addition, the Bank recognized the net amount of the expected return on plan assets and the interest cost of the value of the obligation, which amounted to EUR 68 thousand in 2018, under "Interest Expenses" in the income statement (having recognized EUR 150 thousand in the same connection under "Interest Expenses" in the income statement for 2017) (see Note 29).

In addition, the Bank recognized a charge of EUR 423 thousand under "Provisions or reversal of provisions" in the income statement for 2018 for the provisions and recoveries of provisions for pensions and similar obligations (2017: EUR 211 thousand) the detail of which is presented below (see Note 16.1).

In 2018 and 2017 the Bank recognized the net amount, adjusted by the corresponding tax effect, of the actuarial gains and losses arising from the valuation of the provision for defined benefit obligations amounting to EUR 432 and EUR 1,557 thousand, respectively, under "Other Accumulated Comprehensive Income – Items that Will Not Be Reclassified to Profit or Loss - Actuarial gains and losses from defined benefit pension obligations" in the Bank's equity (see Notes 2.11.2 and 17.2). The change in this equity item is presented in the accompanying statement of changes in equity.

The assumptions used in the actuarial calculations at 31 December 2018 and 2017 of the defined-benefit pension obligation and the assets used to cover them, included in the foregoing table, were as follows:

Pension obligations at 31 December 2018 and 2017:

- Mortality tables: PERM 2000-P, at 31 December 2018 and 2017.
- Discount rate:
    - For the assets, 1.58% (market discount rate) at 31 December 2018 (31 December 2017: 1.17%).
    - For the liabilities, 1.39% (market discount rate) at 31 December 2018 (31 December 2017: 1%).
- Adjustable pension increase rate: 2.5% at 31 December 2018 and 2017.
- Adjustable salary increase rate: 2.68% at 31 December 2018 and 2017.
- Expected rate of return on plan assets:
    - 1% for the assets included in the pension plan at 31 December 2018 (At 31 December 2017: 1.20%).
    - 1.17% for the obligations covered by the insurance policy at 31 December 2018 (At 31 December 2017: 1.38%).

Other long-term obligations at 31 December 2018 and 2017:

- Mortality tables: PERM/F 2000-P, at 31 December 2018 and 2017.
- Discount rate (market discount rate):
    - 2011, 2012, 2013 and 2015 pre-retirement plan: 0.41% at 31 December 2018 and 0.13% at 31 December 2017.
- Salary increase:
    - 2011 pre-retirement plan: 1.50% at 31 December 2018 and 2017.
    - 2012, 2013 and 2015 pre-retirement plan: 0.00% at 31 December 2018 and 2017.

The discount rate used was the market rate according to the financial term of the flows relating to the obligations and according to the iBoxx yield relating to corporate bonds with a high credit rating (AA).

Set forth below is the sensitivity analysis at 31 December 2018 and 2017, which considers how the value of the defined benefit pension obligations and of long-term obligations would have changed in the event of a 50 basis point upward or downward shift in the discount rate used and in, where appropriate, the pension increase rate, with the other assumptions used remaining unchanged at that date:

Post-employment benefits

A 50 basis point upward/downward shift in the discount rate used at 31 December 2018 would give rise to a EUR 8,896 thousand reduction and a EUR 9,711 thousand increase, respectively, in the value of the obligations (At 31 December 2017: EUR 10,318 and EUR 11,312 thousands, respectively).

A 50 basis point upward/downward shift in the pension discount rate at 31 December 2018 would give rise to a EUR 8,913 thousand reduction and a EUR 9,717 thousand increase, respectively, in the value of the obligations (At 31 December 2017: EUR 10,236 and EUR 11,202 thousands, respectively).

Long-term pre-retirement obligations

A 50 basis point upward/downward shift in the discount rate used would give rise to a EUR 609 thousand reduction and a EUR 624 thousand increase, respectively at 31 December 2018 (At 31 December 2017: EUR 889 and EUR 914 thousands, respectively).

With regard to the sensitivity analysis described above, it should be noted that, for the other actuarial assumptions used in the valuation of the obligations at 31 December 2018, changes that might significantly affect the value of the obligations in the future are not considered likely to occur.

The breakdown of the assets allocated to the coverage of the defined benefit pension commitments and the other long-term commitments of the Bank at 31 December 2018 and 2017 shown in the previous tables is shown below, taking into account the nature of the same:

	Thousands of Euros					
	2018			2017		
	Pension obligations	Other long-term obligations	Total	Pension obligations	Other long-term obligations	Total
Pension fund	4,505	-	4,505	4,724	-	4,724
Insurance policies taken out with CASER	175,562	-	175,562	191,135	-	191,135
Total	**180,067**	**-**	**180,067**	**195,859**	**-**	**195,859**

The pension fund referred to in the above table is the Cecabank Employees' Pension plan ("Plan de Pensiones de los Empleados de Cecabank"), which forms part of the pension fund for the employees of the Spanish Confederation of Savings Banks. The latter comprises the defined contribution and defined benefit obligations to CECA´s current and former employees which were transferred to the Bank in year 2012 (see Note 2.11). The detail, by principal asset category and related fair value, of this fund's assets at 31 December 2018 and 2017, is as follows:

	2018	2017
Quoted Spanish government debt	34.36%	22.94%
Quoted private fixed-income securities	39.08%	30.07%
Quoted equity securities	20.28%	34.87%
Cash and bank balances	5.47%	10.84%
Other assets (1)	0.81%	1.29%
	100%	100%

(1) The fund's assets do not include properties or items of property plant and equipment. The assets classified under this item are private equity funds.

With regard to the assets of the pension fund included in the foregoing table, it should be noted that at 31 December 2018 and 2017 there were no financial assets relating to assets issued by the Bank.

The Bank's best estimate of the contributions to be made to the different pension plans defined by pensions and similar obligations maintained with the Bank's current and previous staff during 2019 is EUR 14 thousand.

36. Administrative expenses - Other general administrative expenses

The detail of this heading in the income statements for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Property, fixtures and supplies	3,075	3,133
IT equipment	22,305	27,852
Communications	1,781	1,673
Advertising and publicity	471	365
Technical reports	2,092	1,674
Surveillance and cash courier services	8,186	8,426
Insurance and self-insurance premiums	603	381
Outsourced administrative services	24,618	23,829
Levies and taxes	3,782	3,338
Entertainment and travel expenses	628	550
Association membership fees	1,406	1,422
External personnel	1,468	1,544
Subscriptions and publications	3,748	3,690
Other administrative expenses	1,824	1,566
	75,987	79,443

The balance of “Technical Reports” in 2018 and 2017 includes the fees paid for the audit of the financial statements of the Bank and other non-attest services, the detail being as follows:

	Thousands of Euros	
	2018	2017
Audit services	324	295
Other attest services	211	202
Total audit and related services	535	497
Tax counselling services	-	-
Other services	211	265
	211	265
Total professional services	746	762

In addition to the services indicated under “Technical Reports” in the preceding table, EUR 107 and 255 thousand were billed in 2018 and 2017 respectively, in connection with commercial relationships developed jointly by companies in the Deloitte network and Cecabank, S.A.

The services commissioned by Cecabank, S.A. meet the independence requirements of the Spanish Audit Law and its implementing regulations, and did not involve the performance of any work that is incompatible with the audit function.

Information on deferred payments to suppliers. Additional Provision Three. "Disclosure obligation" provided for in Law 15/2010, of 5 July

Additional Provision Three of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, on combating late payment in commercial transactions, amended by Final Provision Two of Law 31/2014, of 3 December, establishes the obligation for companies to expressly disclose their average periods of payment to suppliers in the notes to their financial statements, and stipulates that the Spanish Accounting and Audit Institute ("ICAC") shall indicate, by way of a resolution, such adaptations as may be required, in accordance with the provisions of this Law, in order for companies not covered by Article 2.1 of Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability to correctly apply the methodology for calculating the average period of payment to suppliers established by the Ministry of Finance and Public Administration.

The aforementioned ICAC Resolution (*Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements on the average period of payment to suppliers in commercial transactions*), which was published in the Spanish Official State Gazette on 4 February 2016, implements, inter alia, the methodology that must be applied to calculate the average period of payment to suppliers.

In order to ensure a proper understanding of the disclosures contained in this Note, as provided for in the aforementioned applicable legislation, it should be noted that "suppliers" are considered to be only those suppliers of goods and services to the bank for which the related expense is recognized, mainly, under "Administrative Expenses - Other Administrative Expenses" in the income statement; this Note does not include, therefore, any information on payments in financial transactions constituting the Entity's object and core activity or on payments to any non-current asset suppliers, which in any case were made in accordance with the periods established in the corresponding agreements and in current legislation.

Also, it should be noted that, in accordance with the provisions of the aforementioned ICAC Resolution, only transactions for goods or services received for which payment has accrued since the entry into force of Law 31/2014 were taken into consideration and that, given the nature of the services that the Entity receives, for the purpose of preparing this information "period of payment (days)" was deemed to be the period between the date of receipt of the invoices (which does not differ significantly from the corresponding dates of the invoices) and the payment date.

The information for 2018 and 2017 required under the aforementioned legislation, in the format required by the ICAC Resolution mentioned in the foregoing paragraphs, is as follows:

	2018	2017
	Days	**Days**
Average period of payment to suppliers	43	43
Ratio of transaction settled	43	43
Ratio of transaction not yet settled	9	34
	Thousands of euros	Thousands of euros
Total payments made	88,634	88,358
Total payments outstanding	1,355	2,204

It should be noted that although under Law 3/2014, of 29 December, the maximum period for payment to suppliers is 60 days, Law 11/2013, of 26 July, established a maximum payment period of 30 days, extendable by agreement between the parties to a maximum of 60 days.

37. Other operating expenses

The breakdown of the balance of "Other Operating Expenses" in the income statement for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
Contribution to the Deposit Guarantee Fund (Note 1.11.a)	118	66
Contribution to the Single Resolution Fund (Note 1.11.b)	3,835	4,322
Other Concepts	33	44
	3,986	4,432

38. Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss

The breakdown of the balance in the income statement for 2018 and 2017 is as follows:

	Thousands of Euros	
	Net (Additions)/ Reversals (Charged)/ Credited to Income	
	2018	**2017**
Financial assets at fair value through other comprehensive income		
Debts instruments (Note 22.8)	309	302
Equity instruments	-	-
	309	302
Financial assets at amortised cost (Note 22.8)	188	6,830
	188	6,830
	497	7,132

39. Amortization

The detail of "Amortization" in the income statement for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
Amortization of tangible assets (Note 12)	3,055	2,951
Amortization of intangible assets (Note 13)	43,149	53,883
	46,204	56,834

40. Related party transactions

Agreement for the Provision of Services between the Confederación Española de Cajas de Ahorros (CECA) and Cecabank, S.A.

As part of the process to incorporate Cecabank, S.A. and the spin-off carried out by CECA to this entity in 2012 (see Note 1.1), an "Agreement for the Provision of Services between the Confederación Española de Cajas de Ahorros (CECA) and Cecabank, S.A." was established. This memorandum of understanding identifies the services that Cecabank provides to CECA and sets the general criteria for intra-group transactions and for the rendering of intra-group services on an arm's-length basis.

As a result of the loss of status of credit institution of CECA in 2014, described in Note 1.1., which was signed on 19 December 2014, with effect from 1 January 2015, a new " Contract Delivery services between the Confederación Española de Cajas de Ahorro (CECA) and Cecabank S.A.", redefined the services Cecabank S.A. lends itself to CECA, according to their new status. The services provided Cecabank S.A. to CECA following the signing of this contract are as follows:

- Provision of association services - Communication and External Relations
- Provision of association services - Technical Secretary's Office of the COAS
- Provision of association services - Regulation and Studies
- Provision of association services - Integral Reporting and Analysis Service
- Provision of association services - Consulting, Quality and CSR
- Provision of services - Audit, Control and Compliance Division
- Provision of services - Products & Services and Foreign Development
- Provision of services - General Secretary's Office and Tax and Legal Advisory
- Provision of services - Financial Planning
- Provision of services - Technology Area
- Provision of services - HR and Properties
- Provision of services - Organisation
- Provision of services - Protocol
- Provision of services - Securities Custody and Intermediation

Income received by the Bank for these services, which amounted to EUR 11,386 and 11,388 thousand in 2018 and 2017 respectively, are recognized under "Other operating income" in the income statement for the year 2018 and 2017 (see Note 34).

Similarly, interest on the account to view the CECA with the Bank are included under "Interest expenses" totaling EUR 3 thousand at 31 December 2018 and 2017. At 31 December 2018 and 2017, the amount of this demand deposit was EUR 26,591 and 29,219 thousand, respectively.

The amount of the fees received by the Bank accrued by the CECA amounted to EUR 5 thousand at December 31, 2018 (31 December 2017: EUR 4 thousand).

At 31 December 2018 and 2017, the demand deposits held by the Bank's senior executives, the members of its Board of Directors and related entities and individuals totaled EUR 834 and 1,005 thousand respectively, and the loans granted to them amounted to EUR 574 and 695 thousand respectively. These amounts bore interest of the exercise

2018 and 2017, EUR 2 and 3 thousand euros, which were recognized under “Interest Income” and “Interest Expenses”, in the income statements for 2017, and no interest expenses were recognized in 2018 and 2017.

The breakdown of the balances arising from transactions with jointly controlled entities recognized in the balance sheets at 31 December 2018 and 2017 and in the income statements for 2018 and 2017 is as follows (Note 2.1):

	Thousands of Euros	
	2018	**2017**
Assets:		
Financial assets at amortised cost	788	568
Liabilities:		
Financial liabilities at amortised cost	195	342
Losses and Profits:		
Interest Incomes	4	-
Other operating income	2,620	2,725
Administrative Expenses - Other administrative expenses	67	77

These positions relate to the entities classified as “Subsidiaries”, since the Bank does not have any investments classified as “Joint ventures” or “Associates” in the accompanying balance sheets as at 31 December 2018 and 2017.

41. Events after the balance sheet date

From the balance sheet date to the date on which these financial statements were authorized for issue, there were no events significantly affecting them.

42. Explanation added for translation to English

These financial statements are presented on the basis of the Bank of Spain Circular 4/2017. Certain accounting practices applied by the Bank that conform with the Circular may not conform with other generally accepted accounting principles.

Appendix I – Subsidiaries included in the Group

At 31 December 2018:

			Thousands of Euros						
			Proportion of ownership Interest (%)			Entity data at 31 December 2018(*)			
Entity	**Location**	**Line of business**	**Direct**	**Indirect**	**Total**	**Assets**	**Liabilities**	**Equity**	**Profit for the year**
Trionis, S.C.R.L.	Brussels	Development and maintenance of the international payment services operative	78.62	-	78.62	4,499	2,391	2,108	24

(*) The company's financial statements at 31 December 2018 have not yet been approved by their shareholders at the respective Annual General Meetings.

At 31 December 2017:

			Thousands of Euros						
			Proportion of ownership Interest (%)			Entity data at 31 December 2017(*)			
Entity	**Location**	**Line of business**	**Direct**	**Indirect**	**Total**	**Assets**	**Liabilities**	**Equity**	**Profit for the year**
Servipagos, S.A.U.	Madrid	Provision of technical payment services	100	-	100	129	8	121	(2)
CEA Trade Services Limited (*)	Hong Kong	Foreign Trade	100	-	100	13	8	5	-
Trionis, S.C.R.L.	Brussels	Development and maintenance of the international payment services operative	78.62	-	78.62	3,934	1,956	1,978	5

(*) This company is in liquidation.

Appendix II – Information for compliance with Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

Annual Banking Report

This information is published in compliance with the provisions of Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions which, in turn, transposes Article 89 of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

Pursuant to the aforementioned legislation, credit institutions will be obliged to publish the following information on a consolidated basis relating to the end of the latest reporting period:

a) Name(s), nature of activities and geographical location:

Cecabank, S.A. ("the Bank" or "the Entity") is a bank that was incorporated by public deed executed in Madrid on 17 October 2012. The Entity has been registered at the Mercantile Registry since 12 November 2012 and in the Bank of Spain's Register of Credit Institutions under code 2000. Cecabank, S.A. forms part of the Cecabank Group. Its registered office is at calle Alcalá no. 27, Madrid. The Bank's company object is:

a) The performance of all manner of activities, operations and services inherent to the banking business in general or directly or indirectly related thereto which it is authorised to carry on by current legislation, including the provision of investment and ancillary services and the performance of insurance brokerage activities.

b) The provision of technological, administrative and advisory services to public authorities, as well as to any other public or private-sector entity; and

c) The acquisition, holding, use and disposal of all types of marketable securities.

The Cecabank Group carries on its activity in Spain. However, it has two branchs in London (United Kingdom) and Lisboa (Portugal), representative offices in Paris (France) and Frankfurt (Germany) and one subsidiary in Belgium.

The Cecabank Group is composed of the following entities, in addition to the Parent, Cecabank, S.A. as Subsidiaries: Trionis S.C.R.L., incorporated in 1990, set in Brussels (Belgium) whose company object is the development and maintenance of the international payment services operative.

b) Turnover:

Turnover at the Cecabank Group is defined as gross income, which amounted to EUR 250,551 thousand in 2018 and EUR 264,500 thousand in 2017.

c) Number of employees on a full time equivalent basis:

At 31 December 2018, the Cecabank Group had 478 full-time employees (a further six had reduced working hours and four worked part-time). At 31 December 2017, the Group had 508 full-time employees (a further seven had reduced working hours and four worked part-time).

d) Gross profit or loss before tax:

The Cecabank Group's gross profit before tax at 2018 year-end amounted EUR 88,736 thousand (2017: EUR 108,159 thousand).

e) Tax on profit or loss:

Tax on the profit for the year ended 31 December 2018 amounted to EUR 25,247 thousand (2017: EUR 34,940 thousand).

f) Public subsidies received:

The entity has not received any subsidies during the year 2018 and 2017.

g) In order to comply with Article 87.3 of the aforementioned Law, it is stated that the return on the Group's assets, calculated as the result of dividing the Group's consolidated profit for 2018 by the total balance sheet, was 0.66% at 31 December 2018 (31 December 2017: 0.73%).

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Cecabank, S.A.

Directors' Report
for the year ended
31 December 2018

The main aim of this directors' report is to provide information on the most significant activities carried on by Cecabank in 2018, to present the results obtained in comparison with the budget, and to disclose both the most significant matters relating to risk management and the activities that will be carried out in order to comply with the strategic lines of action defined for 2019.

1. New 2020 Strategic Plan and business performance

Cecabank is halfway through their Strategic Plan 2017 – 2020, with a firm commitment to growth through three business lines:

1) **Securities Services**, centered on maintaining leadership in depositary business, complementing the service offering of the Securities Services value chain and motivate to make inroads into other markets.
2) **Treasury** focusing on increasing the returns, supplementing the new services offering, and maintaining its leadership in the banknote business in Spain.
3) **Banking Services** providing the market with multiple solutions in a mature business conditioned by new sector adjustments and new players, with the aim of capturing and increasing the degree of customer loyalty, generate economies of scale and establish collaborative models to capture new business.

The strategy defined, i.e. **strengthening the three lines of business** described above, continued to be deployed in 2018. To this end, the Bank defined a number of services that form part of the **central scenario** (maintaining and consolidating the traditional businesses) and identified a series of **incremental initiatives** (growing the business).

	Securities Services	Treasury	Banking Services	
Central Scenario	Depositary services Securities BB.OO.	Treasury room Banknotes Equity investments	Treasury Risk Support Payment Services International Business-Financial Products and Services. Payments methods	Interactive Services Technology Services Associative Services Reporting Services Banking Training School
Incremental Initiatives	FADO Extending the value chain Securities Services value	Bond platform FX Sharing Securities Lending	Boosting digital services Digital Payment Platform Currency Exchange in payment networks	

In turn, the **internal transformation initiatives** enabled **the Entity's support functions** to reach the maturity level required to undertake a broader transformation process:

- Communication Plan
- HR Plan
- Quality Plan
- Innovation Plan
- CSR Plan
- Systems Plan
- Commercial Management Plan
- Efficiency Plan
- Blockchain
- Corporate Governance

In addition, **disruptive opportunities** that could cause a strong impact and a substantial change to the Entity's size continued to be explored. At the same time as it performed the analysis of potential traditional opportunities in order to foster the identification of new levers associated with innovation, the Bank designed and launched a policy to invest in the areas of fintech, regtech and cyber security, among others.

Noteworthy developments in 2018 included:

- **Central Scenario:** earnings performance was hit by various factors, such as market volatility, a delay in the expected ECB rate hike, concentration in the banking industry (Bankia-BMN), a decline in fee and commission income and fewer opportunities afforded for brokerage activities. All these factors had an influence on **gross income** and hindered its performance.

  A successful outcome was obtained from the process to consolidate recurring income, which reached 65% of the Bank's total income.

  A fall in revenue led to the launch of efficiency plans seeking cost savings, notably including the execution of the redundancy programme.

- Of the eleven **Incremental Initiatives** defined, two (Primary Market Access and Equity Securities Purchase and Sale Order Execution) were moved to the central scenario since they had achieved the objectives set and were considered to be fully operational. Also, all the initiatives were reviewed and their respective strategies were adjusted as necessary to attain the targets set in the Strategic Plan in 2020.

- As regards **Transformation Initiatives**, work on the internal transformation plans has been intense over the last two years, and significant progress has been achieved in their implementation by encouraging actions aimed at promoting a culture of change focused on the Entity’s values.

  The progress achieved enabled these functional areas to reach the maturity level required, which the Bank aims to consolidate through five transversal initiatives aimed at strengthening the Entity and fostering innovation and flexibility to respond to the challenges in the Bank's environment. Project CKbe Smart was launched in late 2018 to boost global transformation. The project, made up of five transversal task forces, is staffed with more than 70 professionals already engaged in the project development phase.

- With respect to the **Disruptive Levers**, the Global Business Development team is leading an analysis of potential corporate transactions in practically all of Cecabank’s business areas.

Following are details of the performance of the three lines of business and the services included in them and defined in the Central Scenario, as well as the incremental initiatives envisaged for each of them.

1.1 Securities Services

The Securities Services business consists of three services (Depository, Securities and Back Office services) and two incremental initiatives (the FADO Project and Extending the Securities Services Value Chain).

The slower growth in off-balance-sheet assets and a decline in average fee and commission income, together with a delay in transferring funds from BPI in Portugal, led to slower-than-expected growth in this line of business.

The volume of funds deposited continued to grow, totalling EUR 107,500 million, with more than 879 vehicles, mainly collective investment undertakings, pension funds and a private equity fund manager. The volume of funds held in custody, including the proprietary trading portfolio, totalled EUR 136,300 million.

The Securities Services business was also focused on fostering innovation through the launch of new tailor-made products that generate an impact on revenue. The implementation of these services was characterised by ecosystems created through agreements with market leading entities.

Together with the initiatives that have a direct connection with the business, a Robotics project is being developed to deploy an automated processing network based on leading-edge technology. A number of robotics actions were implemented in 2018 in various processes across all business units, achieving major economies of scale and operating efficiencies that also translated into a better quality of customer service.

With respect to the incremental initiatives in the Securities Services business:

- In the **FADO Project**, in operating terms the Branch obtained final registration from the Portuguese Securities Market Commission (CMVM) and formally announced the commencement of activities on 1 September 2018. The transfer of funds from the Portuguese bank BPI is scheduled to be made in 2019.
- The performance of the **Extending the Securities Services Value Chain** initiative performed above budget. This initiative encompasses the commercial plan for the Operating Services Area and the development, marketing and implementation of the Global Securities Solution. In 2019 the effort will be focused on expanding the customer base, with special emphasis on investment services companies and management companies.
- The **Funds Platform** was redesigned and a strategic alliance with Allfunds was reached. It was integrated into the “Extending the Securities Services Value Chain” initiative, which is linked to the Global Securities Solution.

1.2 Treasury

The Central Scenario comprises three services (Treasury, Equity Securities Purchase and Sale Order Execution and Banknotes) and three incremental initiatives (Bond Platform, FX Sharing and Securities Lending Programme).

The financial margin was influenced by the performance of the markets, where high volatility prevailed as a result of the uncertainty caused by various geopolitical risks, fluctuations in interest rates and in certain macroeconomic indicators and a liquidity surplus.

Cecabank elected to seek a broader diversification of customers and products.

The Equities Initiative moved into the Central Scenario as a new, fully operational service.

As regards Banknotes, mention must be made of the contracts for direct service to branches (SDO) signed by new entities and an increase in business with corporates.

The Primary Market Access initiative, which became part of Treasury in 2017, exceeded the budget set in 2018, but it is facing a highly competitive environment in 2019.

In Incremental Business Initiatives, mention must be made of the following:

- The **Bond Platform** has been live since July 2018 and an ambitious commercial plan is being undertaken.
- **FX Sharing.** The strategy to be followed was reviewed and the first agreements with customers were obtained.

1.3 Banking services

The Banking Services business line comprises nine different services (Treasury and Risk Support; Payments, Clearing and Discounting Service; International Business - Financial Products and Services; Payment Services; Interactive Services; Technology Services; Membership Services; Financial Reporting and the Banking Training School) and three incremental initiatives (Extension of Digital Services, Digital Payment Platform and Currency Exchange in Payment Networks).

Revenue from banking services exceeded the budget. The highlights by service are as follows:

- **Payments, Clearing and Discounting Service.** Being a mature business, efforts were focused on cutting costs and renegotiating agreements with suppliers. New entities were attracted for the Spanish National Electronic Clearing System (SNCE) representation service.
- The **Treasury Platform** focused its efforts on strengthening ties with existing customers.
- **Means of Payment** had a positive performance owing mainly to a rise in consumer spending. Efforts were also focused on attracting new customers to processing and value-added services.
- Notable features of **Interactive Services** included the implementation of web-based remittance generating software, the new e-billing platform and developments in instant payment operations.
- **Technology Services**. Significant commercial agreements were reached for outsourcing services through ecosystems created with reference partners.
- **Membership Services**. The main activities undertaken in 2018 included the project implementing the payment legislation under PSD2 and lobbying at European level.
- **Reporting**. Notable developments included the acquisition of the Pyramid Analysis and Reporting modules by prominent Spanish entities, of the Pyramid SIRBE module by the IT services company Rural Servicios Informáticos (RSI) and exploration of a new management module with the assistance of a large Spanish entity.
- The **Banking Training School** reached new agreements under the MiFID II and MIFIR advisory programme, and continued its work to complete the course offering (e.g. the Spanish real estate credit law, Fintech & Digital Banking and GDPR (General Data Protection Regulation)-DPO (Data Protection Officer)).

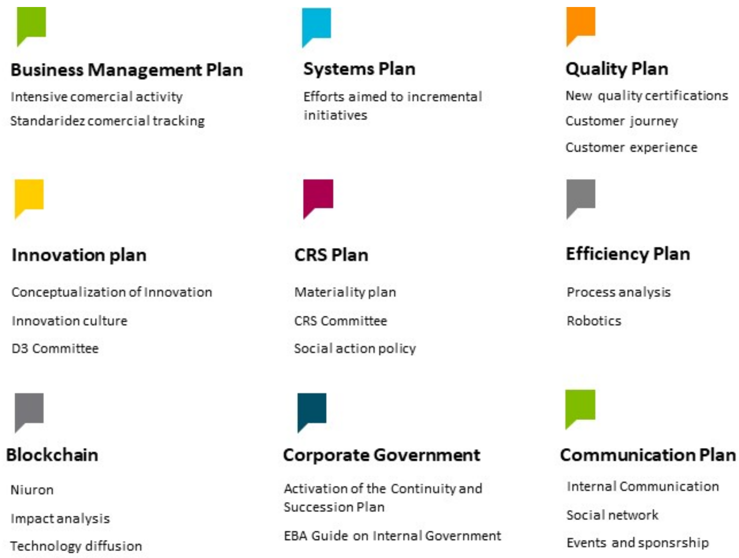
As for the Incremental Initiatives:

- The **Extension of Digital Services** initiative (including e-billing, application programming interface (API) platform and e-consent/e-trust services) brought contracts for the API platform service with five entities, and the service is planned to be offered to other interested entities in 2019.
- The **Digital Payment Platform** had a positive performance due to its sound operations, its redefined strategy, a review of the pricing model and improved efficiency.

- The **Currency Exchange in Payment Networks** initiative is already operational in on-line mode. The first agreement was entered into in 2018 with a medium-sized bank and others are expected to follow in the first half of 2019.

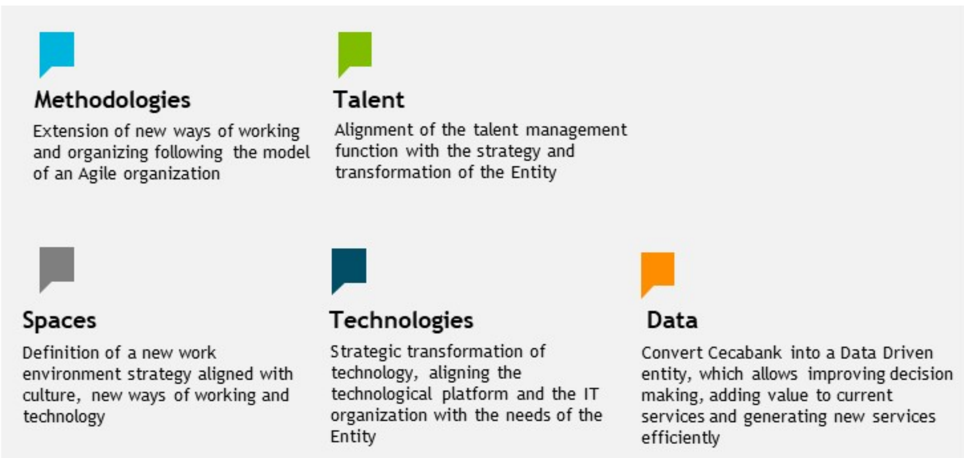
1.4 Internal transformation

As part of the Strategic Plan, ten internal transformation initiatives were defined which led to the achievement of significant milestones in the support functions.



Towards the end of 2018 an internal discussion exercise was conducted around the need for dealing with an **Entity-wide global transformation plan** aimed at expediting processes, reducing time-to-market and fostering innovation to boost business growth.

With this objective, CKBe Smart was launched as a global project comprising **five major transversal initiatives** currently involving more than 70 Entity professionals, with direct input from all the transformation initiatives under the Strategic Plan.



1.5 Strategic business objectives

In general terms, commercial efforts and outcomes were remarkable throughout the year. This intense commercial activity was rolled out particularly in the non-traditional market, with the aim of winning new customers and making further progress towards the diversification of revenue. It is hoped that the impact on earnings of the commercial activity in 2018 will materialise in 2019.

New billings	Contacted customers	Trades arranged	New customers
Total Objective	Total Objective	Total Objective	Total Objective
15,4M€ - 109%	280 - 99%	182 - 164%	31 - 161%

Following are details of the achievement of the targets set for 2018:

New billings - estimated annualised billings from new contracts entered into in the period. The target for the whole of 2018 was EUR 15.4 million and 109% (EUR 16.8 million) was achieved.

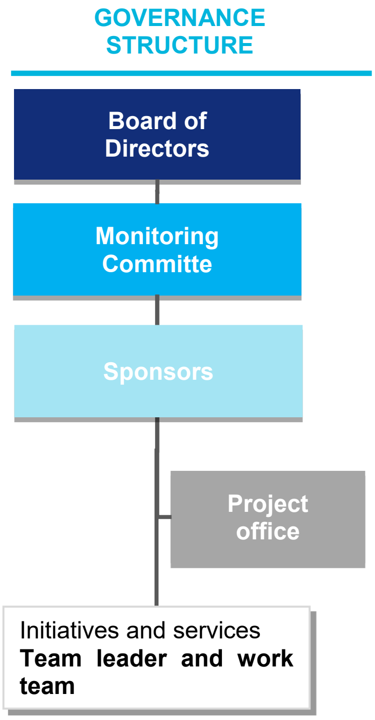
Contacted customers - measures the number of customers with whom the Entity has had a commercial relationship. The figure is in line with the target set (280).

Trades arranged - number of open trades that are ultimately completed. The target for 2018 was 182 trades and the year-end figure was 164% of the target.

New customers - new customers at Entity level. The target for 2018 was to win 31 new customers and 161% of the target (50) had been achieved at 2018 year-end.

1.6 Strategic Plan governance model

The Strategic Plan governance model was retained in 2018 to ensure compliance with the Plan targets. The governance model has various levels of monitoring:



Every quarter, the **Board of Directors** receives a complete monitoring report detailing the developments in the implementation of the Strategic Plan, the Central Scenario and the strategic initiatives. These reports are debated at Board meetings.

The **Strategic Plan Monitoring Committee** met on eleven occasions in 2018, and reviewed the Strategic Plan on a global basis using the approved monitoring methodology. Also, all the Incremental Initiatives were reviewed in depth with those responsible for them at meetings of the aforementioned committee.

2. 2018 statement of profit or loss

			Variance	
	Actual 2018 (*)	**Budget 2018 (*)**	**Amount (*)**	**%**
Financial margin (**)	85,884	95,000	-9,116	(10)
Fee and commission and operating income (***)	163,468	168,307	-4,839	(3)
Gross income	**249,352**	**263,307**	**-13,955**	**(5)**
Operating expenses (including provisions) (****)	(160,610)	(172,326)	11,716	7
Profit from operations	**88,742**	**90,980**	**(2,238)**	**(2)**
Other income and expenses	(1)	0	(1)	(100)
Profit before tax	**88,741**	**90,980**	**(2,239)**	**(2)**
Income tax	(25,247)	(25,460)	(213)	1
Profit for the year	**63,494**	**65,520**	**(2,026)**	**(3)**

(*) Amounts in thousands of euros.
(**) Including net interest income, dividend income, gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, gains or losses on financial assets and liabilities held for trading, gains or losses on financial assets and liabilities designated at fair value through profit or loss, gains or losses from hedge accounting, exchange differences and gains or losses on non-trading financial assets mandatorily at fair value through profit or loss.
(***) Including fee and commission income, fee and commission expenses, other operating income and other operating expenses.
(****) Including administrative expenses, the depreciation and amortisation charge, provisions or reversal of provisions, and impairment or reversal of impairment on financial assets not measured at fair value through profit or loss.

Following is an analysis of the various headings composing the statement of profit or loss:

- **Financial margin:** this figure came in EUR 9 million under budget, mainly because of the current situation in the interest rate market, the delay in the expected interest rate hike, with the concomitant lack of opportunities to earn a return, and a liquidity surplus involving a higher-than-expected cost. Geopolitical tensions throughout the year also contributed to increased market volatility.

- **Fee and commission and operating income:** this line item fell short of the initial budget projections for the year by 3% mainly as a result of slower growth in deposits with respect to budget expectations and a fall in the average fees and commissions on those deposits. This fall was partly offset by the positive performance of the Entity's other business lines.

- **Gross income:** reflects all the net income obtained from operations, which amounted to EUR 249 million, down 5% on the budget for the reasons mentioned above.

- **Operating expenses:** cost savings were achieved in all items making up the operating expenses, particularly in terms of depreciation and amortisation, which has a variable component linked to the revenue from Securities Services which, owing to a decline in such revenue, reduced the depreciation and amortisation charge.

- **Profit for the year:** the actual net profit after tax was EUR 63.5 million, down 3% on the budget.

In line with prior years, profit will not be distributed and reserves will not be appropriated until the Entity's financial statements are approved, based on its comfortable solvency position.

3. External credit ratings

The ratings assigned to Cecabank by the international agencies Fitch Ratings, Moody's and Standard & Poor's at 31 December 2018 were as follows:

	Short-term	Long-term
FITCH RATINGS	F-3	BBB-
MOODY'S	P-2	Baa2
STANDARD & POOR'S	A-2	BBB

The strategic reorientation and the success of its implementation were key factors for the three agencies to maintain the current investment grade ratings. In general, when issuing the Entity's ratings, the agencies highlight as positive factors its success in terms of:

- The comfortable liquidity position
- The strategic reorientation of the Entity
- The conservative risk profile
- Being a supplier of services of other entities
- Increase in the recurrence of income
- The leadership position in Securities Services

4. Risk management

Notes **22, 23, 24, 25 and 26** to the Entity's financial statements include the information relating to its risk management objectives, policies and procedures, as well as its exposure by type of risk.

5. Significant events after the reporting period

No significant events occurred after the reporting period.

6. Business objectives for 2019

The Entity-level targets set for 2019 include a number of new features with respect to the targets for 2018. These adjustments give a greater weighting to commercial activities in the statement of profit or loss:

- The **contacted customers** indicator has been replaced by another for **external revenue**, in order to measure the actual impact in 2019 of the commercial milestones.
- The trades arranged indicator has been replaced by another for **trades arranged in excess of EUR 10,000**, to give more prominence to the commercial actions having a greater impact on profit or loss.

- The **new customers** indicator has been redefined and from now on a new customer will be considered as such if he or she has had no dealings whatsoever with the Entity over the last three years.
- Lastly, a new indicator, **customers with billings**, has been added to monitor net customer additions and losses.

	New earnings (miles €)	New billings (miles €)	New customers	Trades arranged > EUR 10,000	Billing active customers
cecabank	14,807	11,204	50	134	225

The targets set for 2019 aim to keep the pace of growth evidenced in 2018 and respond to the requirements established in the Strategic Plan.

The new revenue target established is very similar to the 2018 target and envisages an increase of only EUR 600,000, and diversification of the customer base, measured through the new customers indicator, is the indicator showing the sharpest rise, from 31 to 50 new customers.

7. Treasury share transactions

In the period from 1 January to 31 December 2018, there were no treasury shares on the Bank's balance sheet.

8. Payments to suppliers

Pursuant to Article 262 of the Consolidated Spanish Limited Liability Companies Law, Note 36 to the Entity's financial statements includes the disclosures on the periods of payment to suppliers.

9. R&D&I expenditure

As part of its ongoing commitment to improving service delivery, in 2018 the Entity incurred R&D&I expenditure to develop various IT tools supporting the Bank's activity. However, no expenditure incurred by the Bank in this connection was capitalised.

10. Hiring people with disabilities

Cecabank has no employees with disabilities in its workforce. However, the Entity cooperates with entities that promote the inclusion of people with disabilities in the workplace, e.g. when it hires, through an intermediary, the handling service for ordinary internal correspondence.

Lastly, the non-financial information statement is included in the consolidated directors’ report of the Cecabank Group, of which Cecabank, S.A. forms part; the Group's consolidated financial statements will be filed with the Madrid Mercantile Registry.

AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS AND DIRECTORS' REPORT

Certificate to attest that the Board of Directors of Cecabank, S.A., at the meeting held on 18 February 2019, authorised for issue the Financial Statements and Directors' Report of Cecabank, S.A. for 2018, which documents were transcribed, including this certificate, on the obverse of 136 sheets of officially stamped paper, signed below by all the members of the Board of Directors of Cecabank, S.A.

Madrid, 18 February 2019

Mr. Manuel Azuaga Moreno

Non-executive chairman. Spanish national identity card number (D.N.I.): 24.750.256 W

Mr. José María Méndez Álvarez-Cedrón

Director – General Manager. Spanish national identity card number (D.N.I.): 33.858.605 Y

Mr. Francisco Botas Ratera

Director. Spanish national identity card number (D.N.I.): 32.782.987 Y

Mr. Santiago Carbó Valverde

Director. Spanish national identity card number (D.N.I.): 25.393.887 R

Mr. Francisco Javier García Lurueña

Director. Spanish national identity card number (D.N.I.): 14.576.670 Y

Mr. José Manuel Gómez de Miguel

Director. Spanish national identity card number (D.N.I.): 51.597.496 D

Mr. Víctor Manuel Iglesias Ruiz

Director. Spanish national identity card number (D.N.I.): 25.143.242 X

Mrs. Carmen Motellón García

Director. Spanish national identity card number (D.N.I.): 09.754.790 F

Mr. Antonio Ortega Parra

Director. Spanish national identity card number (D.N.I.): 22.889.335 B

Mr. Javier Pano Riera

Director. Spanish national identity card number (D.N.I.): 35.046.035 S

Mr. Jesús Ruano Mochales

Director. Spanish national identity card number (D.N.I.): 33.518.307 Q

Mrs. Julia Salaverría Monfort

Director. Spanish national identity card number (D.N.I.): 15.951.097 E

Mrs. María del Mar Sarro Álvarez

Director. Spanish national identity card number (D.N.I.): 50.292.331 W