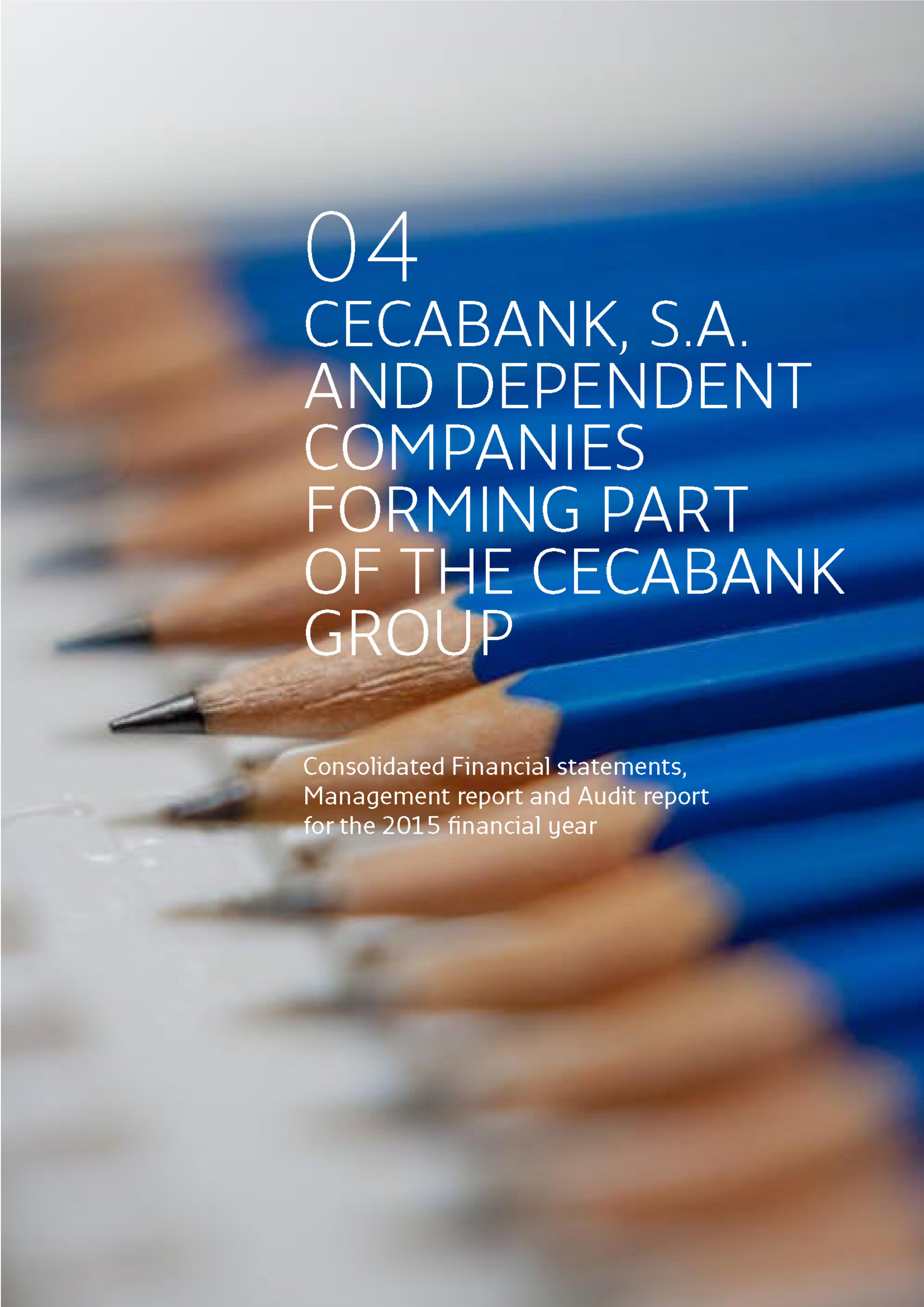

04 CECABANK, S.A. AND DEPENDENT COMPANIES FORMING PART OF THE CECABANK GROUP

Consolidated Financial statements,
Management report and Audit report
for the 2015 financial year

04

CONSOLIDATED FINANCIAL STATEMENTS 2016

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

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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. In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Cecabank, S.A.,

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Cecabank, S.A. ("the Bank") and Subsidiaries composing, together with the Bank, the Cecabank Group ("the Group"), which comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement, consolidated statement of recognised income and expense, consolidated statements of changes in total equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Bank's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of the Group in accordance with International Financial Reporting Standards as adopted by the European Union ("EU-IFRSs") and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 1.2 to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Bank's directors of the consolidated financial statements 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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Cecabank Group as at 31 December 2016, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

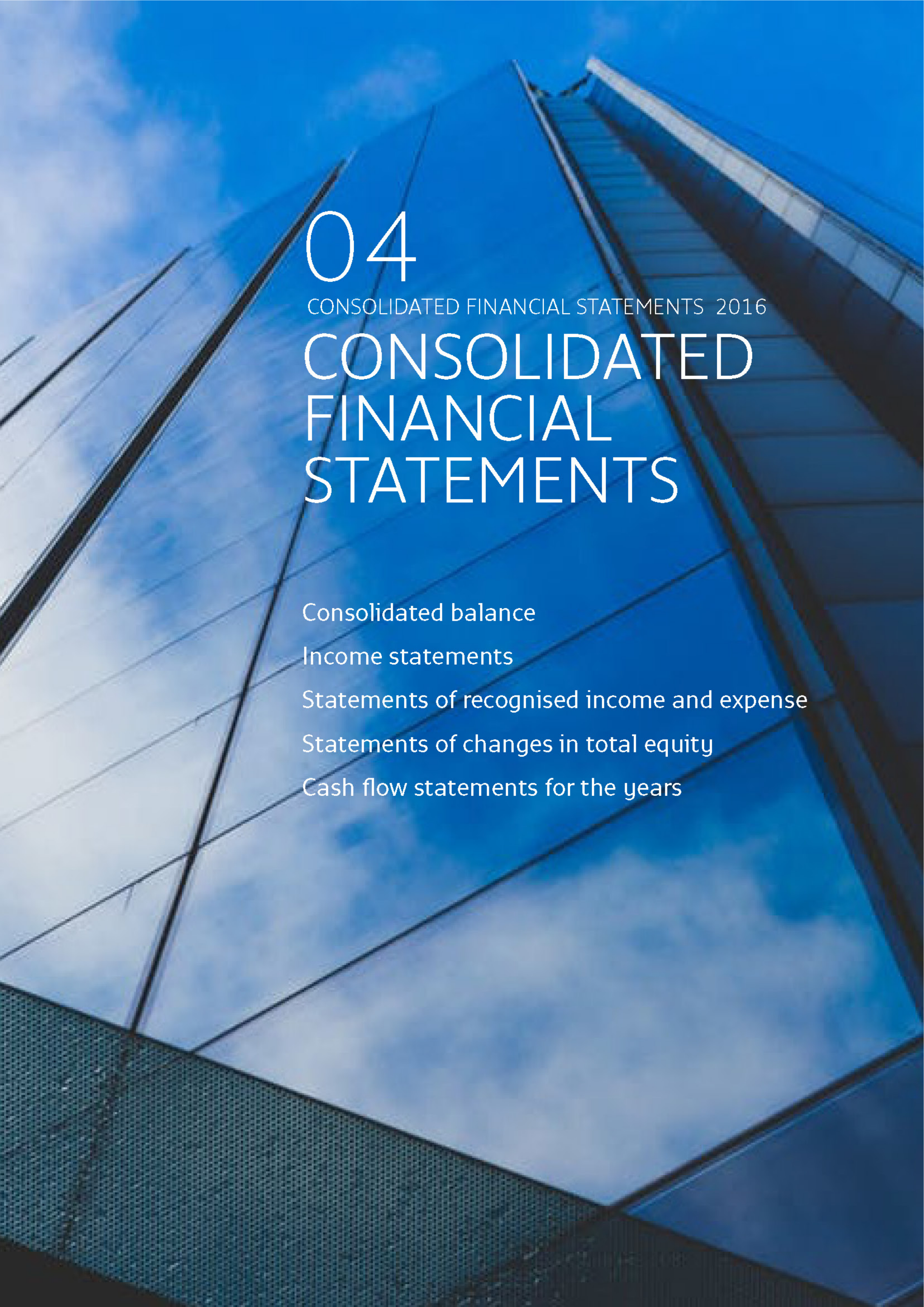
Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2016 contains the explanations which the Bank's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2016. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Cecabank, S.A. and Subsidiaries composing, together with the Bank, the Cecabank Group.

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

Juan Manuel Alonso Fernández
22 February 2017



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CONSOLIDATED FINANCIAL STATEMENTS 2016

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance

Income statements

Statements of recognised income and expense

Statements of changes in total equity

Cash flow statements for the years

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

CECABANK,S.A. AND SUBSIDIARIES COMPOSING CECABANK GROUP

Consolidated Balance Sheets at 31 December 2016 and 2015
(Thousand of Euros)

ASSETS	2016	2015 (*)
Cash, cash balances at central banks and other demand deposits (Note 7)	**2,190,148**	**216,165**
Financial assets held for trading (Note 8.1)	**2,008,565**	**2,560,723**
Derivatives	1,250,753	1,362,311
Equity instruments	151,360	63,160
Debt securities	606,452	1,135,252
Loans and advances	-	-
Central Banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loanedor advanced as collateral with right to sell or pledge	*11,855*	*309,418*
Financial assets designated at fair value through profit or loss (Note 8.2)	**1,066,436**	**2,786,463**
Equity instruments	-	58,116
Debt securities	-	-
Loans and advances	1,066,436	2,728,347
Central Banks	-	-
Credit Institutions	898,579	2,698,393
Customers	167,857	29,954
Memorandum item: loanedor advanced as collateral with right to sell or pledge	*104,405*	*332,398*
Available-for-sale financial assets (Note 9)	**3,321,501**	**4,202,012**
Equity instruments	67,519	89,080
Debt securities	3,253,982	4,112,932
Memorandum item: loanedor advanced as collateral with right to sell or pledge	*74,850*	*716,426*
Loans and receivables (Note 10)	**1,217,888**	**1,886,824**
Debt securities	21,874	41,224
Loans and receivables	1,196,014	1,845,600
Central Banks	-	-
Credit Institutions	704,379	1,076,978
Customers	491,635	768,622
Memorandum item: loanedor advanced as collateral with right to sell or pledge	*2,247*	*38,673*
Held-to-maturity investments	-	-
Memorandum item: loanedor advanced as collateral with right to sell or pledge	-	-
Derivatives - hedge accouting (Note 11)	**511**	**222**
Fair value changes of hedged items in portfolio hedge of interest rate risk	-	-
Investment in subsidiaries, joint ventures and associates	-	-
Group companies	-	-
Associates	-	-
Tangible assets (Note 13)	**53,202**	**53,371**
Property, plant and equipment	51,367	52,383
For own use	51,367	52,383
Leased out under an operating lease	-	-
Assignated to welfare projects	-	-
Investment property	1,835	988
Of which: leased out under an operating lease	-	-
Memorandum item: acquired under a finance lease	-	-
Intangible assets	**59,426**	**84,020**
Goodwill	-	-
Other instangible assets (Note 14)	59,426	84,020
Tax assets	**124,571**	**128,209**
Current tax assets	207	572
Deferred tax assets (Note 20)	124,364	127,637
Other assets (Note 15.1)	**34,057**	**51,712**
Insurance contracts linked to pensions	-	-
Inventories	-	6
Other	34,057	51,706
Non-current assets and disposal groups classified as held for sale (Note 12)	**18,110**	**18,487**
TOTAL ASSETS	10,094,415	11,988,208

(*) Presented for comparison purposes only (see Note 1.4).

The accompanying Notes 1 to 42 and Appendixes I and II,included in the Consolidated Memorandum adjunted, are an integral part of the balance sheet at 31 December 2016.

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

Consolidated Balance Sheets at 31 December 2016 and 2015
(Thousand of Euros)

LIABILITIES AND EQUITY	2016	2015 (*)
LIABILITIES		
Financial liabilities held for trading (Note 8.1)	**1,779,800**	**2,273,135**
Derivatives	1,346,084	1,327,114
Short positions	433,716	946,021
Deposits	-	-
Central Banks	-	-
Credit institutions	-	-
Customers	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss (Note 8.2)	**185,902**	**1,109,908**
Deposits	185,902	1,109,908
Central Banks	-	-
Credit institutions	38,510	675,885
Customers	147,392	434,023
Debt securities issued	-	-
Other financial liabilities	-	-
Memorandum item: subordinated liabilities	-	-
Financial liabilities at amortised cost (Note 16)	**6,730,645**	**7,260,167**
Deposits	6,103,137	7,011,315
Central Banks	-	-
Credit institutions	958,553	1,181,969
Customers	5,144,584	5,829,346
Debt securities issued	-	-
Other financial assets	627,508	248,852
Memorandum item: subordinated liabilities	-	-
Derivativess - hedge accounting (Note 11)	**3,966**	**4,418**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		
Liabilities under insurance and reinsurance contracts	-	-
Provisions (Note 17)	**190,034**	**210,618**
Pensions and other post-employment defined benefit obligations	-	-
Other long-term employee benefits	76,166	91,094
Pending legal issues and tax litigations	19,663	6,321
Commitments and guarantees given	134	16
Other provisions	94,071	113,187
Tax liabilities (Note 20)	**44,961**	**44,173**
Current liabilities	12,038	4,335
Defeerred tax liabilities	32,923	39,838
Other liabilities (Note 15.2)	**138,115**	**113,134**
Liabilities included in disposal groups classified as held for sale	-	-
TOTAL LIABILITIES	**9,073,423**	**11,015,553**
EQUITY		
Shareholders equity	**959,753**	**902,650**
Share capital	112,257	112,257
Paid up capital (Note 19.1)	112,257	112,257
Unpaid capital which has been called up	-	-
Memorandum item: uncalled capital	-	-
Share premium (Note 19.2)	615,493	615,493
Equity instruments issued other than capital	-	-
Other equity items	-	-
Retained earnings	-	-
Revaluation reserves	-	-
Other reserves	155,613	99,219
Reserves or accumulated losses of investment in joint and associated businesses	-	-
Others (Note 19)	155,613	99,219
(-) Treasury shares	-	-
Profit for the year	76,390	75,681
(-) Interim dividends	-	-
Accumulated other comprehensive income	**60,818**	**69,501**
Items that will not be reclassified to profit or loss	9,462	8,260
Actuarial gains or losses on defined benefit pensions plans (Note 18)	*9,462*	*8,260*
Non-current assets and disposal groups classified as held	-	-
for sale	-	-
Participation in other recognized income and expense of investments in joint and associated businesses	-	-
Other valuation adjustments	-	-
Items that will not be reclassified to profit or loss	51,356	61,241
Hedge of net investments in foregn operations	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges	-	-
Available-for-sale financial assets (Note 18)	*44,112*	*61,241*
Debt instruments	*39,389*	*45,247*
Equity instruments	*4,723*	*15,994*
Non-current assets and disposal groups classified as held		
for sale (Notes 12 y 18)	*7,244*	-
Participation in other recognized income and expense of investments in joint and associated businesses	-	-
Minority interests	**421**	**504**
Other cumulative overall result	-	-
Other elements	421	504
TOTAL EQUITY	**1,020,992**	**972,655**
TOTAL LIABILITIES AND EQUITY	**10,094,415**	**11,988,208**
MMORANDUM ITEMS		
Guarantees given (Note 27.1)	**91,956**	**99,960**
Contingent commitments given (Note 27.3)	**280,446**	**412,074**

(*) Presented for comparison purposes only (see Note 1.4).

The accompanying Notes 1 to 42 and Appendixes I and II,included in the Consolidated Memorandum adjunted, are an integral part of the balance sheet at 31 December 2016.

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

Consolidated Income Statements for the years ended 31 December 2016 and 2015

(Thousand of Euros)

	Ingresos / (Gastos)	
	2016	2015 (*)
Interest income (Note 28)	**111,134**	**67,474**
Interest expenses (Note 29)	**(73,148)**	**(20,635)**
Expenses on share capital repayable on demand	**-**	**-**
A) NET INTEREST INCOME	**37,986**	**46,839**
Dividend income (Note 30)	**33,841**	**5,474**
Results entities valued by the participation method	**-**	**-**
Fee and commission income (Note 31)	**134,561**	**128,452**
Fee and commission expenses (Nota 32)	**(15,603)**	**(16,470)**
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net (Note 33)	**16,511**	**15,588**
Gains or losses on financial assets and liabilities held for trading, net (Note 33)	**(38,902)**	**8,371**
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net (Note 33)	**(290)**	**(1,215)**
Gains or losses from hedge accounting, net (Note 33)	**(4,802)**	**(2,369)**
Exchange differences, net	**51,178**	**51,754**
Other operating income (Note 34)	**50,168**	**53,944**
Other operating expenses (Note 37)	**(9,570)**	**(8,635)**
Asset income covered by insurance or reinsurance contracts	**-**	**-**
Liability expenses covered by insurance or reinsurance contracts	**-**	**-**
B) GROSS INCOME	**255,078**	**281,733**
Administrative expenses	**(116,501)**	**(117,625)**
Staff costs (Note 35)	(52,121)	(53,632)
Other administrative exenses (Note 36)	(64,380)	(63,993)
Amortisation (Note 39)	**(55,622)**	**(49,709)**
Provisions and reserval of provisions (Note 17)	**3,476**	**(32,810)**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (Notes 22 & 38)	**11,088**	**19,264**
Financial assets measured at cost	-	-
Available-for-sale financial assets	(3,386)	(940)
Loans and receivables	14,474	20,204
Held-to-maturity investments	-	-
C) PROFIT FROM OPERATIONS	**97,519**	**100,853**
Impairment or reversal of impairment of investments in subsidiaries, joint ventures or associated (Note 2.1.2)	**-**	**3,272**
Impairment or reversal of impairment on non-financial assets	**-**	-
Tangible assets	-	-
Intangible assets	-	-
Other	-	-
Gains or losses on derecognition of non-financial assets and investments, net (Note 13)	**(12)**	**(21)**
Of which: investments in subsidiaries, joint ventures and associates	-	-
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 12)	**10,894**	-
D) PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**108,401**	**104,104**
Tax expense or income related to profit or loss from continuing operations (Note 20)	**(32,002)**	**(28,298)**
E) PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**76,399**	**75,806**
Profit or loss after tax from discontinued operations	**-**	**-**
F) PROFIT FOR THE YEAR	**76,399**	**75,806**
Attributable to minority interests (non-dominant shares)	9	125
Attributable to dominant shares	76,390	75,681
F) PROFIT FOR THE YEAR	**76,399**	**75,806**

(*) Presented for comparison purposes only (see Note 1.4).

The accompanying Notes 1 to 42 and Appendixes I and II,included in the Consolidated Memorandum adjunted, are an integral part of the balance sheet at 31 December 2016.

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

Consolidated Statements of Changes in Equity for the years ended 31 December 2016 and 2015

I. Consolidated Statements of Recognised Income and Expense for the years ended 31 December 2016 And 2015 (Thousand of Euros)

	2016	2015 (*)
PROFIT FOR THE YEAR	**76,399**	**75,806**
OTHER COMPREHENSIVE INCOME	**(8,683)**	**(24,318)**
Items that will not be reclassified to profit or loss (Note 35)	**1,202**	**2,220**
Actuarial gains or losses on defined benefit pension plans	1,717	3,172
Non-current assets and disposal groups held for sale	-	-
Participation in other recognized income and expense of investments in joint and associated businesses	-	-
Other valuation adjustments	-	-
Income tax relating to items that will not be reclassified	(515)	(952)
Items that may be reclassified to profit or loss	**(9,885)**	**(26,538)**
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	-	-
Available-for-sale financial assets	(24,470)	(37,912)
Valuation gains or losses taken to equity	(5,579)	(22,641)
Transferred to profit or loss	(9,088)	(15,271)
Other reclassifications	(9,803)	-
Non-current assets and disposal groups held for sale (Note 10)	10,349	-
Valuation gains or losses taken to equity	546	-
Transferred to profit or loss	-	-
Other reclassifications	9,803	-
Participation in other recognized income and expense of investments in joint and associated businesses	-	-
Income tax relating to items that may be reclassified to profit or loss	**4,236**	**11,374**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**67,716**	**51,488**
Attributable to minority interests (non-dominant shares)	9	125
Attributable to dominant shares	67,707	51,363

(*) Presented for comparison purposes only (see Note 1.4).

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

Consolidated Statements of Changes in Equity for the years ended 31 December 2016 and 2015

II. Consolidated Statements of Changes in Total Equity for the years ended 31 December 2016 and 2015 (Thousand of Euros)

2016:

	SHAREHOLDERS' EQUITY											Minority Interests		Total
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	(-) Treasury shares	Result attributable to the owners of the dominant	(-) Interim dividends	Accumulated other comprehensive income (Note 18)	Accumulated other comprehensive income	Other elements	Equity
Opening balance (before restatement) at 1 January 2016	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**99,219**	**-**	**75,681**	**-**	**69,501**	**-**	**504**	**972,655**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2016	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**99,219**	**-**	**75,681**	**-**	**69,501**	**-**	**504**	**972,655**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**76,390**	**-**	**(8,683)**	**-**	**9**	**67,716**
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**-**	**56,394**	**-**	**(75,681)**	**-**	**-**	**-**	**(92)**	**(19,379)**
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)	-	-	-	-	-	-	-	-	(19,291)	-	-	-	-	(19,291)
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	-	-	-	-	-	-	56,394	-	(56,390)	-	-	-	(4)	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	(88)	(88)
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2016	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**155,613**	**-**	**76,390**	**-**	**60,818**	**-**	**421**	**1,020,992**

(*) Presented for comparison purposes only (see Note 1.4).

The accompanying Notes 1 to 42 and Appendixes I and II,included in the Consolidated Memorandum adjunted, are an integral part of the balance sheet at 31 December 2016.

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

Consolidated Statements of Changes in Equity for the years ended 31 December 2016 and 2015

II. Consolidated Statements of Changes in Total Equity for the years ended 31 December 2016 and 2015 (Thousand of Euros)

2015 (*):

Sources of equity changes	SHAREHOLDERS' EQUITY											Minority Interests		Total
	Share capital (Note 18)	Share premium (Note 18)	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Result attributable to the owners of the dominant	(-) Interim dividends	Accumulated other comprehensive income (Note 18)	Accumulated other comprehensive income	Other elements	Equity
Opening balance (before restatement) at 1 January 2015 (*)	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**58,736**	**-**	**55,425**	**-**	**93,819**	**-**	**-**	**935,730**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2015	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**58,736**	**-**	**55,425**	**-**	**93,819**	**-**	**-**	**935,730**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**75,681**	**-**	**(24,318)**	**-**	**125**	**51,488**
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**-**	**40,483**	**-**	**(55,425)**	**-**	**-**	**-**	**379**	**(14,563)**
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)	-	-	-	-	-	-	-	-	(13,622)	-	-	-	-	(13,622)
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	-	-	-	-	-	-	41,803	-	(41,803)	-	-	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	379	379
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	(1,320)	-	-	-	-	-	-	(1,320)
Closing balance at 31 December 2015 (*)	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**99,219**	**-**	**75,681**	**-**	**69,501**	**-**	**504**	**972,655**

(*) Presented for comparison purposes only (see Note 1.4).

The accompanying Notes 1 to 42 and Appendixes I and II,included in the Consolidated Memorandum adjunted, are an integral part of the balance sheet at 31 December 2016.

cecabank

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

Consolidated Statements of Cash Flows for the years ended 31 December 2016 and 2015

(Thousand of Euros)

	Proceeds / (Payments)	
	2016	2015 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**1,997,480**	**122,497**
Profit for the year	**76,399**	**75,806**
Adjustments made to obtain the cash flows from operating activities	**202,762**	**71,823**
Amortisation	55,622	49,709
Other adjustments	147,140	22,114
Net (increase)/decrease in operating assets	**3,711,146**	**(1,064,301)**
Financial assets held for trading	502,304	268,236
Financial assets designated at fair value through profit or loss	1,661,621	854,063
Available-for-sale financial assets	847,721	(1,657,293)
Loans and receivables	683,407	(510,796)
Other operating assets	16,093	(18,511)
Net increase/(decrease) in operating liabilities	**(1,968,694)**	**1,069,321**
Financial liabilities held for trading	(493,335)	5,719
Financial liabilities designated at fair value through profit or loss	(924,006)	(255,735)
Financial liabilities at amortised cost	(529,522)	1,318,445
Other operating liabilities	(21,831)	892
Income tax recovered/(paid)	**(24,133)**	**(30,152)**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**(4,206)**	**(89,097)**
Payments:	**(30,721)**	**(94,558)**
Tangible assets	(2,634)	(2,934)
Intangible assets	(28,087)	(91,624)
Investments in subsidiaries, joint ventures and associates	-	-
Other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Held-to-maturity investments	-	-
Other payments related to investing activities	-	-
Proceeds:	**26,515**	**5,461**
Tangible assets	-	-
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associates	-	5,461
Other business units	-	-
Non-current assets and liabilities classified as held for sale	26,515	-
Held-to-maturity investments	-	-
Other proceeds related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(19,291)**	**(13,622)**
Payments:	**(19,291)**	**(13,622)**
Dividends	(19,291)	(13,622)
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)	**1,973,983**	**19,778**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**216,165**	**196,387**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 5)	**2,190,148**	**216,165**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	101,710	53,495
Cash balances at central banks	1,877,695	8,065
Other demand deposits	210,743	154,605
Less: Bank overdrafts refundable on demand	-	-

(*) Presented for comparison purposes only (see Note 1.4).

The accompanying Notes 1 to 42 and Appendixes I and II,included in the Consolidated Memorandum adjunted, are an integral part of the balance sheet at 31 December 2016.

04

CONSOLIDATED FINANCIAL STATEMENTS 2016

CONSOLIDATED MANAGEMENT REPORT

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails

CECABANK, S.A. AND SUBSIDIARIES COMPOSING THE CECABANK GROUP

Consolidated Management Report for The year ended 31 December 2016

Cecabank, S.A. (Cecabank) is the Parent of the Cecabank Group. The companies composing the Group are detailed in Note 1 to the consolidated financial statements for the year ended 31 December 2016. Cecabank represents 99.97% of the Group's assets.

As a consequence of the low relevance of the other entities of the aforementioned group, the main objective of this Management Report is to disseminate the most significant activities developed by Cecabank during the year 2016, present the actual results obtained, in comparison with the budget, and disclose both the most significant matters relating to risk management and the activities that will be carried out within the framework of the strategic lines of action defined for 2017.

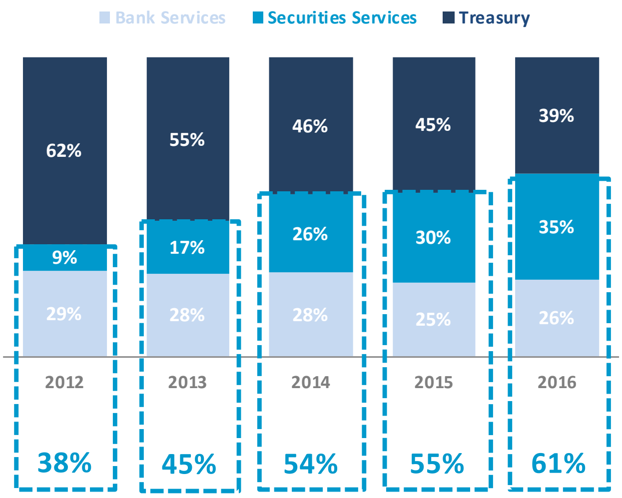
1. Business performance and achievement of targets in 2013 - 2106

Cecabank is in the final phase of implementation of the 2013-2016 Strategic Plan and has defined and approved a new Strategic Plan for the period 2017-2020.

The 2013-2016 Strategic Plan has been a real transformation of the Entity.

1. Enhancement of its main ratios: ROE has risen from 4.8% in 2012 to 8.5%, thanks to the improved earnings performance. In 2012 Cecabank had a capital ratio of 18.4%; this has been bolstered in recent years, raising its highest-quality capital ratio (CET1) to 31.87% at 31 December 2016. Its long-term Moody´s rating has improved and now stands at Baa2.

2. New business mix: Cecabank has achieved a more balanced and recurring product mix, less dependent on the financial margin and involving a higher proportion of fees and commissions, which now account for 61% of income.



- The relative contribution of the Treasury Department to the income statement has gradually decreased as a result of the change experienced by the market in this period of high market volatility, characterised by a scenario of negative interest rates and the effects of political events such as the Brexit vote or the US elections.

- The performance of the Securities Services business has made it possible to counterbalance a portion of the falls in the financial margin and in the consolidation of Banking Services customers.

- The income from Banking Services has stabilised after the decline experienced as a result of the reorganisation of the industry, and the Bank has a significant market share with potential for growth in value-added and digital payment services.

3. Broadening of the customer base: since 2012 the composition of the customer portfolio has been transformed, reducing direct billings to CECA associates and increasing billings to other customers. Collective investment undertaking and pension fund management companies and investment services firms have come to represent the most important segment of the customer portfolio, with the additional advantage that in most cases the relationship is governed by a long-term contract.

4. Consolidation of the business model: Cecabank has achieved a leading position in the securities services market, consolidated the Treasury and Banknote business and bolstered the loyalty of Banking Services customers through a clear commitment to innovation in the digital payment sphere.

5. New corporate culture: Cecabank has made progress towards a new corporate culture, one that is more customer-centric and results-oriented.

The following is worthy of note with respect to the three core business lines defined:

1.1 Securities Services

- In its 2013-2016 Strategic Plan, Cecabank set itself the target of becoming the leading player in the Spanish securities services market. This target was reached in 2015 and the Bank's position consolidated in 2016.

- Cecabank is the first-choice post-trading securities services provider for more than 60 financial institutions, including banks, broker-dealers, collective investment undertaking and pension fund managers, insurance companies and official agencies.

- Cecabank's offering spans the entire securities services value chain, and it provides trade execution, clearing, settlement and custody/depository services for all manner of assets in more than 50 markets worldwide.

- In 2016 Cecabank adapted its procedures and systems to the first phase of the Spanish securities market reform, and it was one of the key entities involved in leading all the industry-wide forums, organised by the CNMV and the Bank of Spain, that governed the project. This role enabled Cecabank to expand its catalogue of services, and it began to offer clearing services, through the central counterparty BME Clearing, for market members.

- • **Depository services**: in December 2016 the amount of the funds deposited at Cecabank by collective investment undertakings and pension funds surpassed EUR 98,000 million, representing an increase of more than EUR 60,000 million since 31 December 2012, i.e. since the beginning of the Strategic Plan. In 2016 Cecabank provided services to 24 institutions which deposited more than 1,000 investment vehicles at Cecabank.

- • **Securities clearing, settlement and custody services**: at 2016 year-end Cecabank held custodied assets totalling EUR 121,099 million, the highest custody figure in the Bank's history. In 2016 it started to provide securities clearing and settlement services to seven new broker-dealers.

- The consolidation of the Spanish market and migration to TARGET2-Securities, which will take place in 2017, will constitute a clear opportunity for Cecabank to increase the number of services rendered to other entities in this sphere, since service quality, independence and customer-centricity are all factors which single Cecabank out as the leading Spanish securities services provider. The new Strategic Plan will harness these assets in order to ensure continued growth in terms of the range of services offered and the types of customers served.

2.1 Treasury

- The 2013-2016 Strategic Plan envisaged a reduction in the contribution made by this business to Cecabank's results, due mainly to the decline in the Treasury Department's financial margin. The negative interest rate scenario has resulted in a slight deviation of this business line's contribution vis-à-vis that projected in the Plan.

Treasury Room: increased trading activity on behalf of third parties, achieved by leveraging a greater commercial effort, diversifying the customer base and expanding the service offering. In this regard, in 2016 Cecabank worked on the launch of the equities trade execution service.

Banknotes: the performance of this business line was favoured by the increase in tourism and the addition of new customers, which included both large Spanish banks and corporates.

Treasury Platform: the project rollout plan is being executed, mainly outside the “traditional market”.

1.3 Banking Services

At 2016 year-end billings were slightly higher than those projected in the Plan, which considered a more pessimistic scenario with regard to the consequences of industry consolidation for these business lines.

The economic recovery is being reflected in the increase in consumption indicators, which affects the payments and business processes activity. Payment transactions have shown continuing long-term growth, even in the crisis years, and have experienced a faster rate of growth in the last two years.

However, traditional businesses are still accounting for a high proportion of earnings. New business opportunities are being explored, although their contribution to earnings is as yet limited.

Within the services of this line of business we can highlight:

Payment:

- Payments, Clearing and Discounting Service: a higher level of diversification was achieved at more than 60 customers, mainly by providing representation services at the Spanish National Electronic Clearing System (SNCE) and international payments services for small banks and international banks represented in Spain.

- London Branch: the payments business continued to report steady growth, which is expected to increase still further with the FX4U (Forex for you) platform.

- Payment Systems: this service line was rightsized and contracts were entered into with the main customers ensuring that they remain with the switching service until December 2018. It also improved its level of customer and service diversification, by promoting the use of international switching through Trionis.

- e-Banking, e-Billing and Ealia: the loyalty of the main customers was maintained and new customers were gained, in particular small banks. Also, this service line was able to bolster the payment-related services provided to larger customers. The springboard for its growth is innovation in digital payment services, such as the Ealia mobile payment platform.

Advisory:

- In the regulatory field: new reporting modules adapted to the regulatory changes are being rolled out and the CRS model, MIFID2 and PRIIPS projects, as well as certain customised projects, were initiated.

- Regulatory reporting: the PYRAMID platform is a benchmark for the market, and Cecabank is developing new reporting modules adapted to reflect regulatory changes.

- The digital signature solution obtained new non-traditional customers, such as a large Spanish insurance company.

- The Banking Training School is making progress towards achieving greater specialisation in regulatory and financial training.

Furthermore, in accordance with the Plan, a series of initiatives aimed at adapting the organisation and managing change were launched, which have entailed a transformation of Cecabank's business model:

Adapt the Organisation:

- In the **corporate governance sphere**, 2016 witnessed completion of the adaptation of the composition and functions of the Board of Directors Committees to the corporate governance rules established in Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions and the related implementing regulations, as well as those provided for in the Spanish Limited Liability Companies Law.

- Within the framework of the **Capacity Reduction Plan** that commenced in 2010, Cecabank has reduced its workforce by 45%. The lay-offs affected not only internal employees, but also external personnel who provided services on our premises. These plans were complemented by internal personnel transfers through which the needs of the core businesses were catered for using personnel from other areas. The current pre-retirement plan approved in 2016 for the 2016-2018 period has not yet been completed.

- With regard to **property management**, all Cecabank's personnel have been relocated to the Alcalá and Caballero de Gracia buildings, and in 2016 the sale of the Avenida de Bruselas building was completed.

- **Implementation of the Mechanisation Plan** continues. In the course of 2016, Cecabank adapted to SEPA regulations and the first phase of the Spanish securities market reform, implemented the Depository Services Mechanisation Plan and unified its customer onboarding process; it also introduced integrated account management, adapted to regulatory compliance requirements, linked up to the Bizum instant payment standard and implemented contactless card and host card emulation (HCE) systems, etc. The growth in the Securities Services business has entailed an increasing demand for IT developments in order to be able to adapt to the needs of this business. An analysis was performed of the status of our systems, taking into account both efficiency and user functionality requirements. This diagnosis resulted in the preparation of a Systems Plan, which will be implemented in the course of the Bank's next strategic plan.

Change management:

- In the **quality management** sphere, the quality plan was adapted to the Strategic Plan, and action was taken mainly in the area of quality management systems and certifications: namely, ISO 9001 for the payments and collections system and Pyramid; ISO 27001 for SEPA debits and transfers; and CMMI maturity level 2 for design and development. Customer satisfaction surveys were conducted and Focus Group meetings were held with customers in order to define improvement plans.

- With regard to the **Communication Plan**, implementation of the 2013-2016 Strategic Plan led to a reflection on the external communication profile that the Bank should adopt. A series of very specific actions aimed at the target group (current and potential customers, regulators, rating agencies and shareholders) were carried out in specialist media, namely on Cecabank's website, in written communications and at events (three Securities Services symposia, Spain Investors Day, Spainsif, European Treasury Summit and Spain's Economy and Financial Sector-FUNCAS). In addition to this, a commercial campaign was conducted for the Ealia payment platform.

- In the **internal communication area**, 2016 saw the launch of the newsletter "somos Cecabank" ("we are Cecabank"), which reports on the main events at the Bank.

- The **Executive Development Plan (DEDICA)** continued in the form of the programme to train executives in the skills they require in order to achieve strategic targets, which included a series of specific training actions.

- In January 2016 the **Corporate Social Responsibility policy**, which defines the Bank's scope of action in CSR, was approved. The structure of the CSR policy features a series of major lines of action (Business, Material Resources, Human Resources and Social Action), on which the various initiatives will be carried out, together with other lines that will provide support (Organisational Structure, Reporting and Balanced Scorecard, Stakeholder Dialogue Mechanism and Involvement in Initiatives). Cecabank participates in Spainsif (the Spanish forum for socially responsible investment). In 2017 it will join Forética (the Spanish Association for CSR and Sustainability) and the UN Global Compact (by adopting the ten universally accepted principles derived from the United Nations' declarations on human rights, labour, the environment and anti-corruption).

At the end of 2015 a set of very ambitious strategic business targets were established for 2016. An assessment of these targets, conducted subsequent to year-end, is as follows:

Challenges			2016 Objetives	2016 Real	
1	Grow	· New billing	21.7 M€	8.4 M€	✗
		· Contracted negotiations	220	234	✓
2	Diversify customers	· New customers	30	33	✓
		· Active customers	198	230	✓
3	Diversify businesses		· Global Clearing Member	✓	
			· New Business Payment Systems	✓	
			· Ealia and Digital banking	✓	
			· Diversification Treasury Platform	✓	
			· Pyramid new services	✓	
4	International projection		· Analysis of international expansion opportunities for Securities Services	✓	
			· Capture international customer SPCD	✓	
			· Treasury from London Office	✓	
			· Caption international customer (Trionis)	✓	

In most cases Cecabank succeeded in achieving the target set, with the following exceptions:

1) The **New Billings target** envisages the estimated annualised billings relating to new contracts entered into in the period. The annual target for 2016 was EUR 21.7 million. New contracts totalling EUR 8.4 million were obtained. The quantification of this target had factored in the obtainment of a significant Depository Services contract that was to have contributed EUR 13 million and which was ultimately not secured. If the specific Depository Services objective were disregarded, 97% of the target would have been achieved.

2) With regard to **Business Diversification**, the new services associated with the Pyramid platform that were projected for 2016 were ultimately not developed in full. However, progress was made on these services and it is expected that they will be provided in 2017.

3) As regards the **International Projection** challenge, from the London branch the Treasury Department attracted new international customers for the Treasury Room, albeit with volumes that still fall far short of the target.

The final assessment of the 2013-2016 Strategic Plan is a highly positive one, since Cecabank has managed to transform and consolidate the business model implemented by it.

2. 2016 Income Statement

	Real 2016 (*)	Budget 2016 (*)	Variance Amount (*)	%
Financial margin (**)	95.509	92.549	2.960	3
Net commission income (***)	158.417	165.627	(7.210)	(4)
Gross income	**253.926**	**258.176**	**(4.250)**	**(2)**
Operating expenses (endowments included) (****)	(156.470)	(166.961)	10.491	6
Profit from operations	**97.456**	**91.215**	**6.241**	**7**
Other losses	10.882	15.000	(4.118)	(27)
Profit before tax	**108.338**	**106.215**	**2.123**	**2**
Income tax	(31.991)	(28.728)	(3.263)	(11)
Profit for the year	**76.347**	**77.487**	**(1.140)**	**(1)**

(*) Amount 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 and exchange differences.
(***) Including commission income, 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 income statement:

- **Financial margin**: this was EUR 3 million above budget, due mainly to the sound performance of the Banknote Department, which reported an increase in the number of customers, and the positive effects of the growth in tourism.

- **Fees and commissions and income from operations**: these were EUR 7 million below budget, due mainly to the Securities Services business line, where the net assets of funds did not reach the budgeted target.

- **Gross income**: reflects all the net income obtained from operations, which amounted to EUR 254 million, down EUR 4 million on the amount budgeted.

- **Operating expenses**: staff costs were below budget by 3.2%, other general administrative expenses by 1.4% and the depreciation and amortisation charge by 2.8%. This, in addition to the positive effect relating to provisions and impairment losses on assets, gave rise to a 6% reduction in operating expenses including provisions and impairment losses.

- **Profit for the year**: the actual net profit after tax was EUR 76.3 million, in line with the initial budget forecast.

3. External credit ratings

The ratings assigned to Cecabank by the international agencies Fitch Ratings, Moody's and Standard & Poor’s at 31 December 2016 were as follows:

	Short Run	Long Run
FITCH RATINGS	F-3	BBB-
MOODYS	P-2	Baa2
STANDAR & POOR’S	A-2	BBB

The strategic reorientation and the success of its implementation were key factors in the various rating agencies' reviews of the Bank's credit ratings, all three of which are currently investment grade. In general, when issuing the Entity's ratings, the agencies highlight as positive factors its success in terms of:

- The ample liquidity position
- The Entity´s strategic reorientation
- The conservative risk profile
- Being a service provider of other entities
- Increased revenue recurrence
- The leadership position in Security 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 Outlook and Strategic Plan 2017-2020

In the course of 2016 a new Strategic Plan was defined for the 2017-2020 time horizon, in whose preparation shareholders, directors, executives and employees at various different levels were all involved.

The Plan envisages a review of Cecabank's strategic aspirations, as expressed in terms of its Mission, Vision and Values:

Mission:
to use its experience as a Spanish wholesale bank with international projection in order to support financial institutions and other corporations.

Vision:
the Bank aims to consolidate its leading position as a provider of specialised solutions for all manner of financial institutions and corporations. We accompany our customers on their journey, building lasting relationships with them, in such a way that each decision taken is borne of mutual trust.

Values:

- Solvency
- Especialization
- Customer orientation
- Innovation
- Integrity

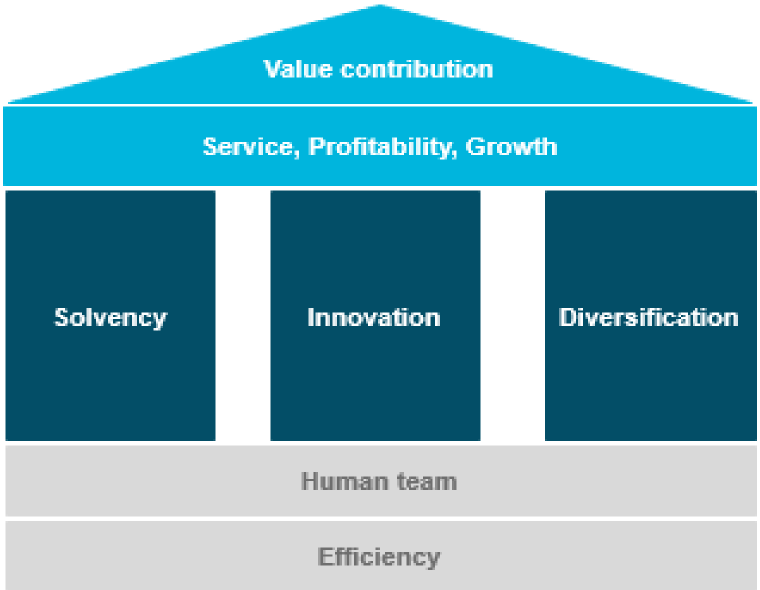
The strategy defined for the 2017-2020 period continues to be structured around three business lines, the strategic aim of each line being as follows:

1) Securities Services: to extend its leadership in depository services by supplementing the value chain service offering, and to begin to make inroads into the Portuguese market

2) Treasury: to increase the returns on flows from Securities Services by supplementing the value chain offering, and to bolster its leadership in the banknote business in Spain

3) Banking Services: to expand the current customer base against a backdrop of banking sector consolidation, and to innovate in digital services and payment systems

The new Strategic Plan defines the objectives that will guide Cecabank's performance during the 2017-2020 period and allow it to gauge the degree of success achieved.



Cecabank's main aim will be to contribute value to its customers and shareholders and, ultimately, to the market and to society. This contribution of value is founded on:

- Service: defined as an offering that stands out above those of its competitors, achieving market recognition for the highest quality standards.
- Profitability: Cecabank understands that shareholder remuneration must be one of its main objectives.
- Growth: the ambition to continue to grow as a provider of specialist services, by means of, inter alia, an increasing internationalisation of our business.

The achievement of these objectives is based on three fundamental pillars:

- Capital adequacy, which has been, and will continue to be, one of Cecabank's distinguishing features. The wholesale banking business is characterised by, among other factors, a higher level of capitalisation than that of retail banks.
- Innovation, geared towards the design of products and services at the cutting edge of technology, thus ensuring that we remain one step ahead of our rivals, as well as innovation applied to work processes, which results in higher efficiency levels.
- Diversification, understood in its broadest sense; diversification of the income stream mix; customer diversification and, potentially, a third form of diversification, namely that of the sources of funding.

The support required for the successful implementation of the 2017-2020 Strategic Plan will be provided by **Cecabank's human team** and **its efficiency**.

These objectives will be mirrored in the following chart of indicators defined for the 2020 horizon.

Objectives Strategic Plan 2017-2020 for 2020

Objetives	Rank
Gross Margin	~270 M€
Efficiency (without amortisation)	40-45%
Profitability (ROE)	9-11%
Solvency (Tier 1 ratio)	20-25%

For the implementation of the Plan, different scenarios have been defined:

- **Core scenario**. The core scenario envisages the maintenance and broadening of the current services portfolio. The premises for this scenario, which were taken into account when making the economic estimates, are the fostering of commercial activity and contract extension, the development and implementation of technological improvements, the expansion of the customer base and the raising of the level of service efficiency and quality.

- **Incremental initiatives**. These initiatives, which consist of projects to develop new businesses or to gain access to new markets, will be conducted as an addition to the core financial scenario. A series of projects have been identified that involve the various business lines and whose successful performance will serve to further improve Cecabank's results.

The Plan is rounded off by a governance model that will ensure that the various projects are carried out in accordance with the established arrangement and timetable, as well as a plan for internal talent development.

In line with the Strategic Plan and taking into account the challenges defined therein, we have worked on the definition of **strategic business objectives for 2017**.

The aim of the strategic targets is to focus commercial efforts in 2017 mainly on:

1. Customer growth: increase income and margins from current customers, achieving greater loyalty and boosting cross-selling.

2. Customer diversification: Achieve greater penetration in new customers, outside the traditional market of Cecabank.

3. Business diversification complement the current offering with new services leveraged on the Entity's capabilities and status as a wholesale bank.

4. International expansion: search for opportunities taking advantage of the foreign network and the new European Banking Union framework.

These last two objectives, which are of a more qualitative nature, are aligned with the action plans defined in the new 2017-2020 Strategic Plan.

The strategic objectives of each of the business lines have been standardised, in order to bring them into line with the standard management indicators contained in the Entity's balanced scorecard. Thus the aim is to be able to closely monitor the level of achievement of those objectives and be able, during the year, to implement actions to ensure that they are achieved.

At Entity level, the strategic objectives defined are summarised in the following table:

Challenges	2017 Objetives	
1 Grow	• New billing	11.5 M€
	• Contracted negotiations	192
2 Diversify Customers	• New Customers	30
3 Diversify businesses	• Execution of variable income for customers. • New Values services. • New Ealia services.	• New developments in Payments Systems. • New functionalities Treasury Platform.
4 International projection	• Services of Securities Services in Portugal. • Attracting treasury business from London. • Transactional FX sharing business.	• Internationalization of Electronic Banking and Ealia. • Internationalization of payment services and Trionis growth.

7. R&D&I activities

In the period from 1 January to 31 December 2016, the R&D activities performed by the Bank focused mainly on technology projects relating to treasury platforms, securities services and payments.

8. Treasury share transactions

In the period from 1 January to 31 December 2016, there were no treasury shares on the Bank's balance sheet.

9. Payments to suppliers

Pursuant to Article 262 of the Spanish Limited Liability Companies Law, Note 36 to the Entity's financial statements includes the disclosures on the payment periods to suppliers.

10. Extra financial report

Cecabank's CSR and Sustainability Committee is currently working on the design and implementation of a non-financial performance report for the entity, in order to meet the requirements of the Directive on the disclosure of non-financial information (Directive 2012/95/EU), which came into force on 6 December 2016 for the financial year commencing 1 January 2017 [1].

The information relating to Cecabank's non-financial performance will be made available on its website, with data for 2016, in the course of the first half of 2017, and the report will thus be issued earlier than required by regulations. Following is an overview of the entity's non-financial performance.

Cecabank's extra-financial performance is based on the following **principles**:

- Cecabank's principles: these form part of the entity's corporate culture, which can be consulted on the website.

[1] Pending transposition into Spanish legislation at the time of writing this report.

- Corporate Social Responsibility policy: Cecabank is not oblivious to the environment in which it carries on its business activity, and it stresses the importance, for the generation of value, of taking into consideration ethical, social, environmental and good governance-related factors. Consequently, it has its own corporate social responsibility policy.

- Ethics and transparency: Cecabank has a code of ethics which formalises the commitment of all its professionals to maintaining the highest standards of professional integrity and ethics (for details see the report on the website). It also has in place control structures and procedures for the prevention of money laundering, Internal Rules of Conduct for securities market activities, proprietary codes for the treasury room, as well as a Euribor protocol and code of conduct.

- Governing bodies: lastly, Cecabank has adapted to the highest corporate governance standards applicable to credit institutions, and since its inception it has undertaken to adopt the best corporate governance practices. Full details in this regard are available on the entity's website.

These principles inspire the axes of action in:

- Business: The wholesale approach of Cecabank's business has a decisive influence on its Social Responsibility Policy and limits the scope thereof. This approach focuses on providing services to professional customers that engage in highly sophisticated business activities, and features lasting relationships characterised by mutual trust. Within this context, social responsibility criteria are included in Cecabank's business through:

  - The general control framework: The organisational structure and the internal control mechanisms are geared towards guaranteeing that the entity's activities are efficient and effective, that the information is reliable, timely and complete, and that the applicable laws are complied with. The general control framework is a coherent, balanced system, equipped with controls at all levels of responsibility.

  - The risk policy: Cecabank's risk management philosophy is based on strict prudential criteria, in keeping with its commercial strategy, and ensures that the capital allocated to the various business units is used efficiently. The risk tolerance defined by the Board reflects a conservative strategy that seeks to conserve a medium-low risk profile; a strategy that is focused on safeguarding the quantity and quality of capital, with capital adequacy ratios clearly in excess of the regulatory minimum requirements; a strategy with respect to which it can reasonably be predicted that none of the risks identified will give rise to losses that cannot be assumed in the normal course of the Entity's operations. Further information on the risk policy can be obtained in Cecabank's 2016 Governance Structure and Practices report and in the Pillar 3 Disclosures report.

    The risk management structure and the reputational risk analysis system include certain aspects of social responsibility. Cecabank analyses the public information available in this area on its potential counterparties, such as the existence of a public CSR and sustainability policy, their organisational structure vis-à-vis CSR, whether they offer responsible products and services, etc. This assessment is part of the non-financial analysis of potential counterparties.

  - Service excellence:

    - Quality: Cecabank aims to implement quality management systems in those businesses in which quality certification will help set them apart from competitors. Certification has already been obtained for depository and securities services, collection and payment services, SEPA debits and transfers, and Pyramid; and CMMI ratings have been received for development and services. Cecabank is currently in the process of obtaining certification for its crime prevention system and its treasury platform. The customer satisfaction surveys conducted evidence the success of Cecabank's principles and its business model, with scores of 8.3 in overall satisfaction, 8.5 in service recommendation and 8.6 in technical competence of the team. Also, 91% of customers surveyed will continue to commission our services.

      Cecabank belongs to the Spanish Association for Quality and the Association for Development of the Customer Experience.

    - ICT risk assessment: most of the services offered by Cecabank are backed by a high level of sophisticated technological support which guarantees, inter alia, data privacy and business continuity. This is why the entity voluntarily adopts the most highly demanding standards and takes on board all the recommendations proposed by the EBA concerning ICT risk assessment. The EBA has identified ICT security, change, data integrity, continuity and outsourcing risks, all of which are included in Cecabank's risk management policy.

- *Socially responsible investment (SRI):* Cecabank fulfils its commitment to sustainable, responsible investment within the framework of the services it provides to its institutional customers. In the sphere of collective investment, non-financial criteria are becoming an increasingly commonplace element of the investment policies of both collective investment undertakings (CIUs) and pension funds (PFs), all the more so in the case of the latter, since it is in the long term that the full potential of the benefits of this investment philosophy come to the fore.

  Particularly noteworthy is the emphasis placed on these criteria by the regulator in the specific case of occupational PFs. Accordingly, as a result of the implementation of Article 69.5 of the Regulation on Pension Plans and Funds (Royal Decree 304/2004, as amended by Royal Decree 681/2014), PFs are required to disclose whether or not they have applied non-financial criteria and, if such criteria have been applied, to specify them. At the end of 2016 the net assets deposited at Cecabank by occupational PFs totalled approximately EUR 8,000 million. Cecabank, in its desire to increase the quality and scope of the service provided to its customers, is designing a facility to improve the monitoring of compliance with investment policies that include non-financial criteria. Cecabank's commitment to SRI is therefore aligned with the SRI objectives of our customers.

  Evidence of Cecabank's commitment to SRI is the total support provided to Spainsif since its foundation and to its various initiatives and events.

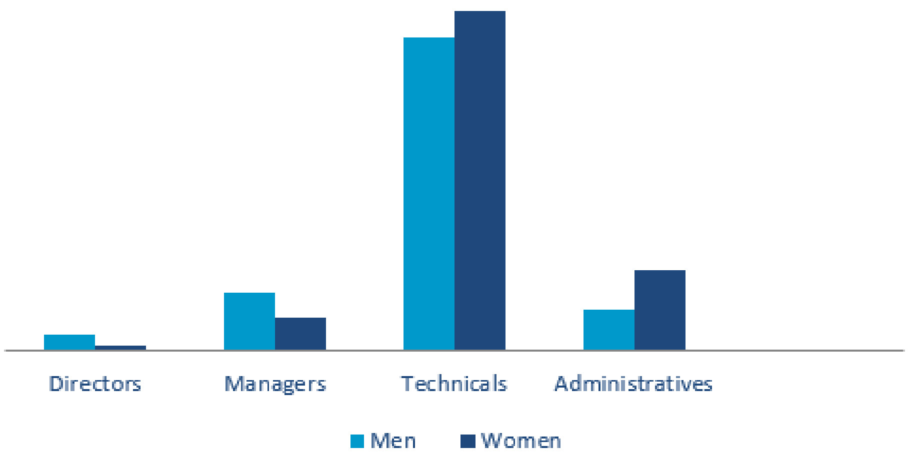
- Material resources management: Cecabank has a limited environmental impact as a result of the specific nature of its operations. Its direct impact is measured in terms of its consumption of energy and consumables/supplies. The energy audit conducted in accordance with Royal Decree 56/2016, of 12 February, was completed successfully and no objections were raised. Based on the auditor's comments, Cecabank has launched electricity and gas oil savings plans which will result in:

  - Replacement of the current lighting with LED lighting

  - Replacement of gas oil consumption with natural gas

- Human resources management: at 31 December 2016, the total number of employees was 518, of whom 251 were men and 267 were women (representing 48% and 52%, respectively, of the workforce). The average age of the employees is 45.35 years and all of them have indefinite-term contracts with Cecabank.

The breakdown by category is as follows:



On 20 December 2016, the Extraordinary General Meeting appointed one new proprietary director and one new independent director (a woman); these appointments were registered at the Mercantile Registry on 16 January 2017. The incorporation of the new independent director raised the proportion of women members of the Board of Directors to 21.4%, as compared with the previous figure of 16.7%.

Investment in **training** is one of the key pillars enabling us to foster the growth, development and promotion of our employees. In 2016, 26,104 hours of training were given (31% more than in 2015), with an average investment per employee of EUR 961, and the level of satisfaction with the training received stood at 88%. 94% of employees received training in 2016 (92% in 2015).

In keeping with the entity's objectives regarding ongoing improvement, the training is reviewed and adapted in response to the needs of the business and of the market.

2016 saw the implementation of the second phase of the **DEDICA** (Quality Executive Development) training plan. The purpose of this plan is to ensure that executives adapt to the Bank's new business model and to the need to address the challenges posed by the financial market. Various areas were worked on:

- *Management Committee*. The training involved coaching and group sessions on specific issues. Thus, each member of the Management Committee had a training plan tailored to meet their personal requirements.

- *Executive Team*. The training programme for managers was designed so that the knowledge acquired would be used in their habitual management behaviour. The focus was on business development and human resource development and assessment.

- *DEDICA for Other Line Personnel.* In order to safeguard Cecabank's change process, a programme was launched to initiate other line personnel in the professional leaderships skills they will require.

- Redefinition of the *Evolution Performance* model.

Cecabank provides its employees with a series of **social benefits**, such as financial aid for kindergarten costs and study grants, a group healthcare insurance policy, a group life insurance policy, a travel accident insurance policy, preferential financial conditions for employees and measures to help reconcile work and private/family life.

As far as **human rights** are concerned, in view of Cecabank's activities and nature as a wholesale bank, and of the countries in which it operates -its head offices are in Madrid and it conducts most of its operations in Spain or the European Union-, the Bank does not have a significant impact on human rights issues, and no risks have been identified in this sphere.

However, on a regular basis the CSR and Sustainability Committee will monitor human rights issues as well as any potential relation they may have with Cecabank's activity.

- **Contribution to Society**: Cecabank pays taxes and other levies to the Spanish tax authorities, thus contributing to the good functioning of society and the sustainment of the public sector, which itself provides services to all citizens of Spain.

  The amount of **income tax** paid by Cecabank in 2016 was EUR 31,991 thousand.

The general administrative expenses recognized in the income statement for 2016 include EUR 3,778 thousand relating to contributions and other taxes.

Also, Cecabank paid a **dividend** of 25% of profit for the year, and the amount thus distributed was EUR 19.1 million.

With regard to **suppliers**, the Bank has a code of conduct for commercial relationships that draws its inspiration from the ten Global Compact principles and through which it undertakes to:

- Maintain a transparent, loyal and responsible relationship with its suppliers.

- Establish channels of communication to know the suppliers expectations.

- Establish fair, stable and transparent trading conditions with its suppliers.

The wholesale nature of Cecabank's activity has a decisive influence on the definition of its social action. In the desire to align the social action policy with this wholesale and highly professionalised nature of the Bank's business, the following **social action** objectives have been set:

- Strengthen the pride of belonging of the employees.

- Link the image of Cecabank with that of its partners, mostly linked to foundations.

To this end, a simple, transparent and participative social action policy was designed which endeavours to be responsive to the concerns and sensibilities of our employees.

The policy includes different lines of action:

- Social aid, which is channelled through the "Tú eliges (It's your choice)" programme, to which most of the social budget is allocated. The leading role in this programme is played by the employees themselves: they propose a number of programmes with which they personally identify, and the entire workforce then chooses the programmes that will ultimately receive Cecabank's financial aid. In 2016, 76% of the workforce took part in this programme and support was provided to seven programmes in which Cecabank employees are directly or indirectly involved.

- Aid in humanitarian emergencies: we facilitate the contributions of our employees to alleviate the effects of humanitarian disasters, and Cecabank itself contributes the same amount as its employees. In 2016 we provided assistance to the victims of the earthquake in Ecuador and hurricane Matthew, in conjunction with Intermón Oxfam and Médicos del Mundo.

- Donations in kind (food collection campaigns, charity bring-and-buy sales and donations of furniture, computer equipment and other items).

- Contributions to the Food Bank as part of its "Operation Kilo" collection event, and the sponsoring of "streets" at its Alcalá de Henares and Madrid warehouses (each aisle has a street-name plaque bearing the sponsor's name).

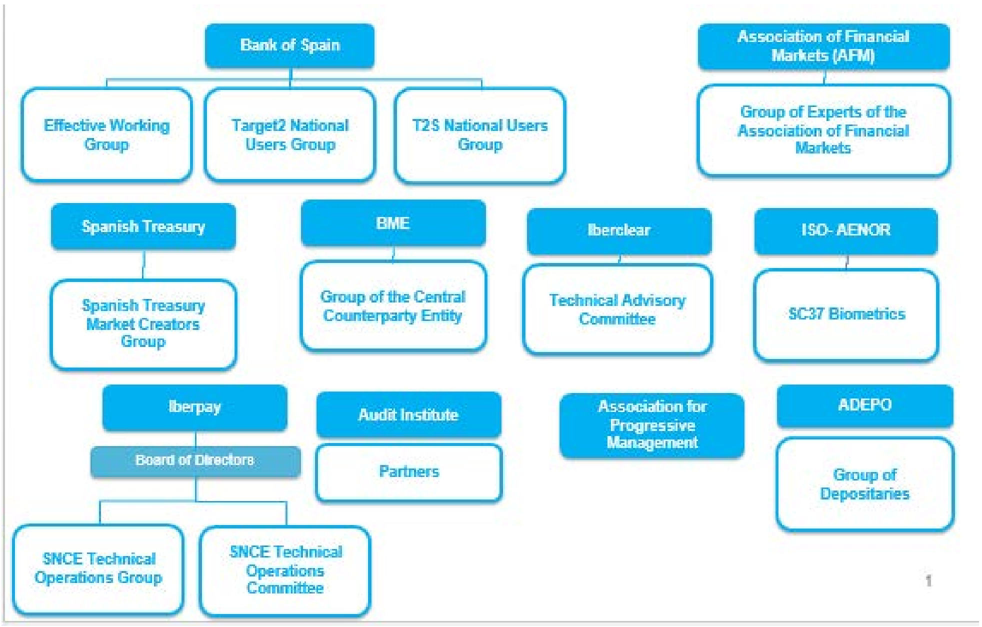
Cecabank participates in various alliances and initiatives in order to make progress in the corporate responsibility area, become a benchmark for sustainability and demonstrate its commitment to society. Following are some examples of the initiatives in which it participates (as from 2017 in the case of Forética and the Global Compact):

And they are supported in the following axes of support:

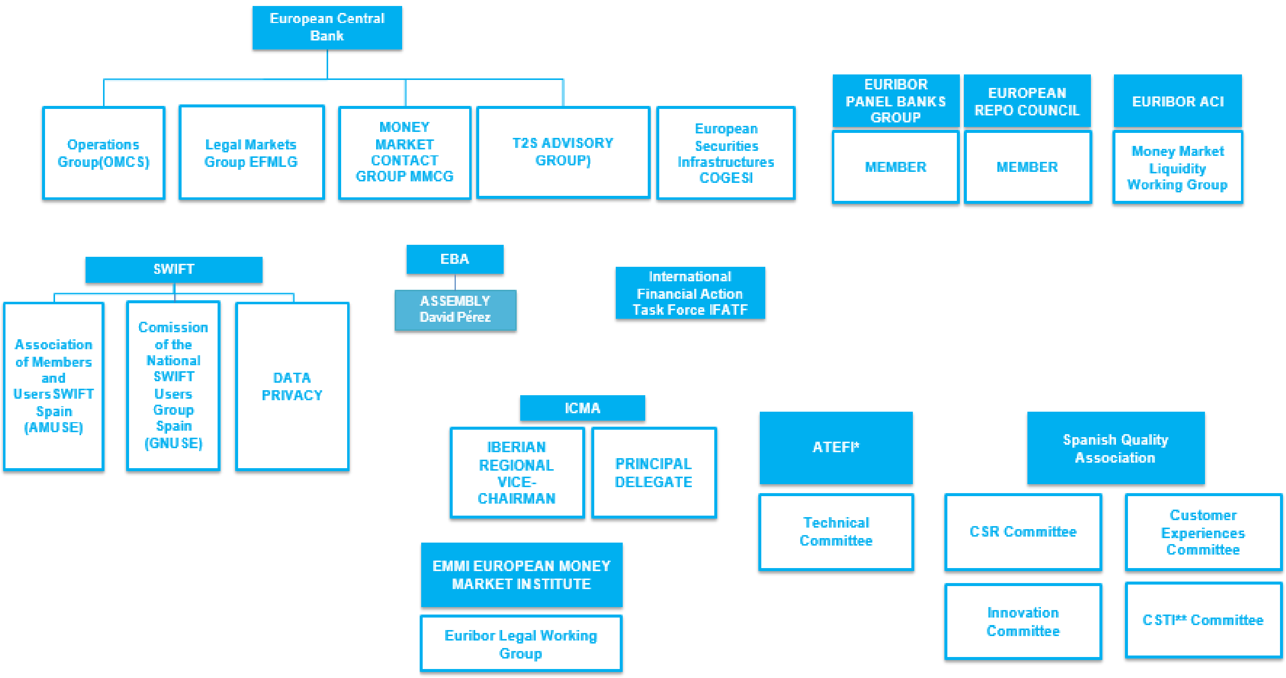
- **Organisational structure**: Cecabank's CSR and Sustainability Committee is composed of representatives from all areas of the entity and reports directly to the Management Committee. It meets at least once every quarter and is chaired by the Director of the Association Services and Audit Area.

- **Stakeholder dialogue mechanisms**: Cecabank participates in both national and international representative forums.

National representation forum

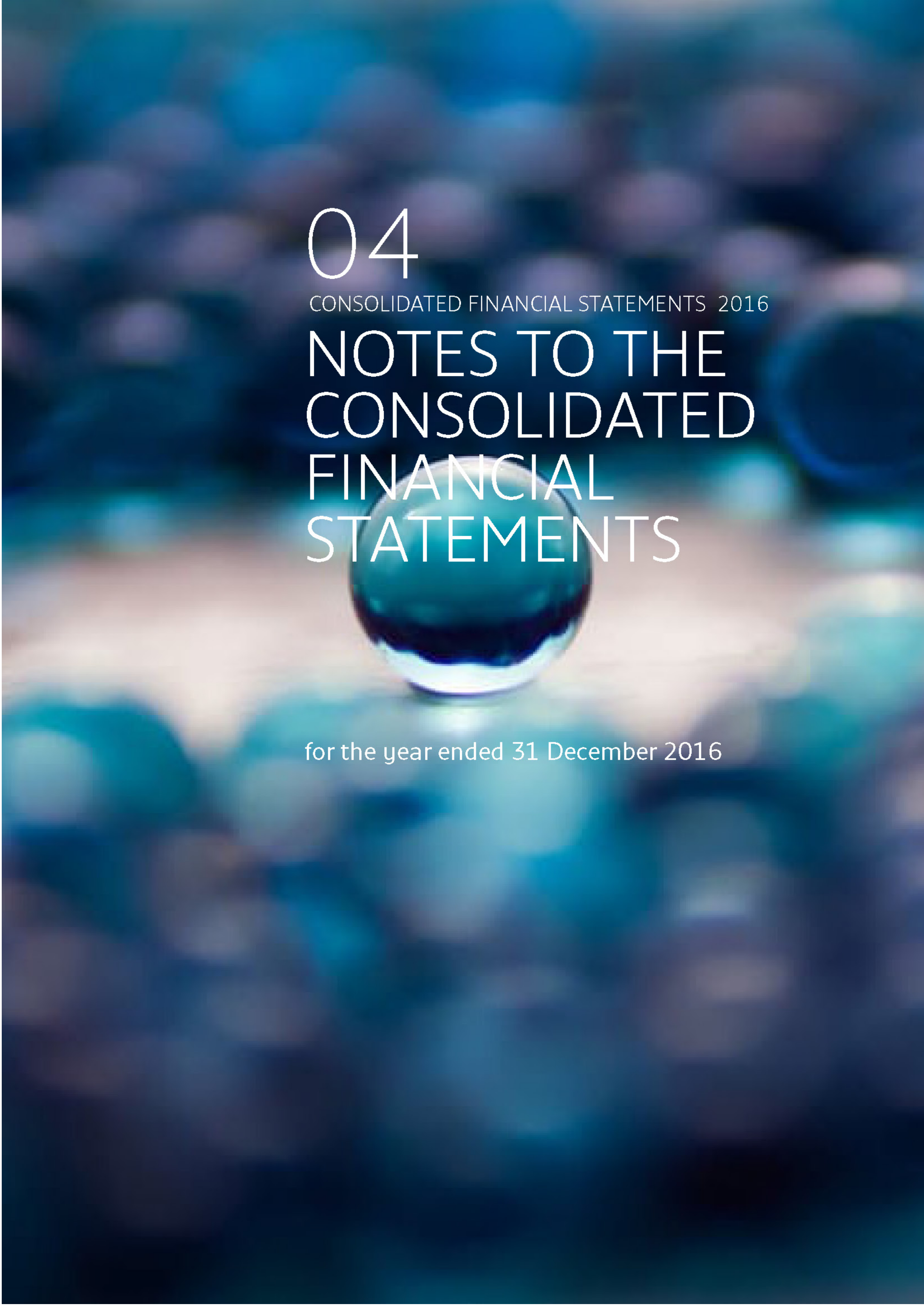


International representation fórum



- **Report and balanced scorecard:** lastly, a **balanced scorecard** will be established in order to enable the CSR and Sustainability Committee and the Management Committee to monitor all the issues discussed in this non-financial report.

Cecabank's non-financial performance is the result of its desire to ensure the long-term projection of its activity and of its relationships with its stakeholders. For this reason, all its initiatives are aligned with its values of prudence, integrity and responsibility. The roll-out of the social responsibility policy will enable Cecabank to gradually make progress, year after year, in social, environmental and good governance areas. Up-to-date information on these matters will be disclosed on the corporate website.



04

CONSOLIDATED FINANCIAL STATEMENTS 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

CECABANK, S.A. AND SUBSIDIARIES COMPOSING THE CECABANK GROUP

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2016

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

1.1. Introduction

Cecabank, S.A. (the "Bank" or the "Entity") is a financial institution established on October 17 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 CECA, 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 a significant volume of transactions and with whom it maintains relevant balances as of 31 December 2016 as detailed in Note 40.

Cecabank Group (the "Group" or "Group Cecabank"), which parent is Cecabank, S.A comprised the following depending companies at 31 December 2016 and 2015:

- Cea Trade Services Limited, incorporated in 2004 to encourage the provision of foreign trade services to savings banks.
- Servipagos, S.A.U., incorporated in 2014 whose corporate purpose is the provision of technical payment services.
- Trionis S.C.R.L., incorporated in 1990 and located in Brussels (Belgium), whose company object is the development, maintenance and operation of international payment services.

Appendix I hereto includes certain relevant financial information on these companies at 31 December 2016 and 2015. Also, Note 3 contains the Bank's condensed financial statements for 2016, which include comparative information for 2015. At 31 December 2016 and 2015, the Group did not have any investments in associates or jointly controlled entities. The investments held by the Group in 2016 and 2015 are described in Note 2.1.

1.2. Basis of presentation of the financial statements

The Group's financial statements for the year 2016 were authorized for issue by its directors at the Board of Directors meeting held on 20 February 2017.

Taking into consideration the chance contemplated in the eleventh final provision of Law 62/2003, of December 30, of fiscal, administrative and social measures with respect to the accounting normative framework applicable in the formulation of consolidated annual accounts from which they have made use the Bank Administrators, the Group's consolidated financial statements are presented in accordance with International Financial Reporting Standards as adopted by the European Union at 31 December 2016 ("EU-IFRSs"), taking into account Bank of Spain Circular 4/2004, of 22 December, to credit institutions, on public and confidential financial reporting rules and formats ("Circular 4/2004"). Bank of Spain Circular 4/2004 implements and adapts for the Spanish credit institution industry the International Financial Reporting Standards approved by the European Union.

The Group's financial statements for the year 2016 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 Group as of 31 December 2016 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 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 annual accounts of the Group and the Bank for the year ended 31 December 2016 were approved on 22 March 2017 by the General Meeting of Shareholders.

The consolidated financial statements were prepared from the accounting records kept by the Bank and by the other Group entities. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2016 may differ from those used by certain Group entities, the required adjustments and reclassifications are made on consolidation to unify such policies and bases and to make them compliant with the EU-IFRSs used by the Group in the preparation of its consolidated financial statements.

The accounting principles and policies described in Note 2 were applied in the preparation of all the consolidated financial statements composing these annual consolidated financial statements.

1.3. Responsibility for the information and use of estimates

The information in these consolidated financial statements is the responsibility of the Directors.

In the preparation of the Group's consolidated financial statements for 2016 estimates were made by the Group's 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 2.9, 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).

- The calculation of the fair value of its obligations compromises and any provisions required for contingent liabilities (see Notes 2.10 and 2.15).

- The useful life of the tangible and intangible assets (see Notes 2.13 and 2.14).

- The fair value of certain financial instruments and unquoted liabilities (see Note 2.2.3).

- The assumptions applied in the estimates of the probability of generating future taxable income that allow the recovery of the Group's deferred tax assets (see Note 2.12).

Although these estimates were made on the basis of the best information available at 31 December 2016 and at the date on which these consolidated 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 consolidated income statements for the years in question.

1.4. Information relating to 2015

As required by IAS 1, the information relating to 2015 contained in these consolidated financial statements is presented with the information relating to 2016 for comparison purposes only and, accordingly, it does not constitute the Group's statutory consolidated financial statements for 2015.

1.5. Agency Agreements

Neither at 2016 nor 2015 year-end nor at any other time during those years did the Group have any agency agreements in force, in the way in which these are contemplated in article 21 of Royal Decree 84/2015, of February 13, which develops Law 10/2014, of June 26, on the management, supervision and solvency of entities of credit.

1.6. Investments in the share capital of credit institutions

At of 31 December 2016 and 2015 the Group did not hold any ownership interests of 5% or more in the share capital or voting power of any Spanish or foreign credit institutions.

1.7. Environmental Impact

In view of the business activities carried on by the Group, it does not have a significant impact on the environment. Therefore, it was not necessary to recognise any provision in this connection the Group's financial statements for 2016 and 2015 do not contain any disclosures on environmental issues.

1.8. Capital management objectives, policies and processes

On 2 February 2016, Bank of Spain Circular 2/2016, of 31 January, 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 Group (see Note 1.12).

This EU Regulation (EU) No 575/2013 lays 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 Group 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. In 2015, pursuant to current legislation, the Bank was not required to hold a capital conservation buffer.

- 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 2017.

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 22 December 2016, 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 9.63%. 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 the date of notification. At 31 December 2016, and throughout 2016, the Bank and the Group's individual and consolidated CET1 ratios exceeded the ratios required by the Bank of Spain (on 23 December 2015, 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 9.50%; at 31 December 2015, and throughout 2015, the Entity 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 Group'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 Group's Common Equity Tier 1 capital and its CET 1 plus Additional Tier 1 capital amounted to EUR 835,348 thousand at 31 December 2016, in both cases (31 December 2015: EUR 819,885 thousand), while total capital amounted to EUR 837,125 thousand at that date (31 December 2015: EUR 824,515 thousand), representing capital adequacy ratios of 31.58% and 31.65%, respectively, at 31 December 2016 (31 December 2015: 25.18% and 25.33%), above the minimum requirements.

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

Tier 2 capital includes mainly certain credit loss provisions specified in articles 62 and 63 of Regulation (EU) No 575/2013.

1.9. Minimum reserve ratio

Throughout the 2016 and 2015 years, the Bank, only Group entity subject to this requirement, met the minimum reserve ratio required by the applicable legislation.

At 31 December 2016 and 2015 the Bank's cash balance with Bank of Spain for these purposes amounted to EUR 1,877,695 and 8,065 thousand on 31 December 2016 and 2015 respectively (see Note 7). This ratio is calculated on the basis of the daily ending balance held by the Bank in this account during the required period.

1.10. Deposit guarantee fund, National Resolution Fund and Single Resolution 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 is to be 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, each of the same amount, on 30 June 2015 (which was settled on that date) and 2016.

The expense incurred for the contributions accruing to the DGF, including both the accrued portion of the outstanding extraordinary levy and the ordinary contribution, amounted to EUR 51 thousand (2014: EUR 71 thousand), which were recognised under "Other Operating Expenses - Other" in the accompanying income statement (see Note 37).

b) National Resolution Fund

During the year 2015 was published the Royal Decree 1012/2015, of 6 November, implementing Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment services firms, and amending Royal Decree 2606/1996, of 20 December, on deposit guarantee funds for credit institutions. Law 11/2015 regulates the creation of the National Resolution Fund, the financial resources of which must, prior to 31 December 2024, reach 1% of the amount of the deposits guaranteed, through contributions from credit institutions and investment services firms in Spain. The detail of the method for calculating the contributions to this Fund is regulated by Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 and the calculation is performed by the Fund for Orderly Bank Restructuring ("FROB") using information provided by the Entity.

The expense incurred on the contribution made to the National Resolution Fund amounted to EUR 3,990 thousand in 2015, and is recognised under "Other Operating Expenses" in the accompanying income statement (see Note 37).

c) 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 calculated the contributions to be paid by each institution in accordance with the information sent to each institution in a form on 11 December 2015. 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.

With respect to the contributions made in 2015 to the National Resolution Fund and subsequently transferred to the SRF, the Board resolved to deduct one-eighth of that contribution in 2016.

In 2016 the leverage ratio started to be applied as one of the indicators to determine the risk profile of financial institutions, while the “Importance of an institution to the stability of the financial system or economy” pillar ceased to be applied.

The expense incurred by the Group in relation to the contribution made to the SRF in 2016 totalled EUR 3,835 thousand and is recognised under “Other Operating Expenses” in the accompanying income statement (see Note 37).

1.11. Changes in accounting policies

No significant change with respect to the accounting policies applied by the Group has occurred in the year 2016 in the consolidated financial statements 2015.

1.12. Main regulatory changes during the period from 1 January to 31 December 2016

1.12.1. Bank of Spain New Circulars

A summary of the main Bank of Spain Circulars issued in 2016 is as follows:

Bank of Spain Circular 1/2016, of 29 January, amending Bank of Spain Circular 1/2015, of 24 March, to payment service providers, on the disclosure of discount and interchange fees collected.

This circular amends and supplements Bank of Spain Circular 1/2015 and regulates the content of, and other aspects relating to, the information that entities acting as payment service providers must furnish to the Bank of Spain on the discount and interchange fees obtained for payment services in card transactions. It introduces improvements to the information requested on interchange and discount fees received by such entities, with a view to facilitating the analysis and comparison thereof. The entry into force of this circular did not have a material impact on the Bank or the information shown in these financial statements.

Bank of Spain Circular 2/2016, of 2 February, to credit institutions, on supervision and capital adequacy, which completes the adaptation of Spanish law to Directive 2013/36/EU and Regulation (EU) 575/2013.

The fundamental aim of this circular is to complete, with respect to credit institutions, the transposition of Directive 2013/36/EU into Spanish law. It also includes one of the options afforded by Regulation (EU) 575/2013 to the competent national authorities, which is additional to those already exercised by the Bank of Spain in Circular 2/2014. This circular also develops certain aspects of the transposition of Directive 2011/89/EU of the European Parliament and of the Council, of 16 November 2011, amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate. Bank of Spain Circular 2/2016 also introduces a definition of competent authority, which will be the European Central Bank or the Bank of Spain, depending on the distribution and allocation of competences established in EU legislation. The entry into force of this circular did not have a material impact on the Bank or the information shown in these financial statements.

Bank of Spain Circular 3/2016, of 21 March, to owners of cash-dispensing ATMs and issuers of cards or payment instruments, on the disclosure of commissions for the withdrawal of cash from cash-dispensing ATMs.

The purpose of this circular, implementing the provisions of paragraph 6 of Additional Provision Two of Payment Services Law 16/2009, of 13 November, is to establish the disclosure obligations relating to the commissions charged by the owners of cash-dispensing ATMs to the issuers of cards or other payment instruments in cash withdrawal transactions performed by customers of the latter using ATMs of the former situated in Spain. The entry into force of this circular did not have a material impact on the Bank or the information shown in these financial statements.

Bank of Spain Circular 4/2016, of 27 April, amending Bank of Spain Circular 4/2004, of 22 December, 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 objective of this circular is to update Bank of Spain Circular 4/2004, principally Annex IX, to adapt it to the latest developments in banking regulations, while maintaining its complete compatibility with the International Financial Reporting Standards (IFRS) accounting framework. This update is part of the process to improve Bank of Spain Circular 4/2004 and adapt it to regulatory developments, incorporating applicable regulatory changes and identified best practices, in a context of continuous evolution and fine-tuning of credit risk accounting. Information on these changes is included in Note 2.3.

In addition, Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register was amended to adapt its disclosure requirements to the changes made to Bank of Spain Circular 4/2004 by this circular.

Bank of Spain Circular 4/2016 also introduced changes required by the new wording of Article 39.4 of the Spanish Commercial Code, introduced by Spanish Audit Law 22/2015, of 20 July, whereby all intangible assets now have a finite useful life and, therefore, can be amortised (this change did not have any impact on the Bank), and the change arising from Royal Decree 878/2015, of 2 October, whereby changes in ownership in purchases and sales of equity instruments shall be deemed to take place on their settlement date and not on their trade date, which affects their recognition for accounting purposes (this change did not have a significant effect on the Bank either).

Lastly, the circular introduces certain changes to institutions' public and confidential financial reporting formats.

Bank of Spain Circular 5/2016, of 27 May, on the calculation method for member institutions' contributions to the Deposit Guarantee Fund for Credit Institutions to be in proportion to their risk profile.

This circular regulates the method to be used to ensure that the contributions of member institutions to the Deposit Guarantee Fund for Credit Institutions are in proportion to their risk profile. For that purpose, the circular is based mainly on the criteria contained in the European Banking Authority Guidelines (EBA/GL/2015/10). The Guidelines include the calculation formula, compulsory and optional risk classes and indicators, risk weights assigned to the indicators and other necessary elements. They also specify the objectives and principles that should guide the design of Deposit Guarantee Fund contribution schemes. The entry into force of this circular did not have a material impact on the Bank or the information shown in these financial statements.

Bank of Spain Circular 6/2016, of 30 June, to credit institutions and credit finance establishments, determining the content and format of the "SME Financial Information" document and specifying the risk classification methodology provided for in Law 5/2015, of 27 April, on the promotion of business financing.

The aim of this circular, in accordance with Article 2.3 of Law 5/2015, of 27 April, on the promotion of business financing, is to: a) specify the content and format of the "SME Financial Information" document, and the template to be completed by the entities referred to in Rule Two of the circular in order to communicate this information to their borrowers in the cases established in Articles 1 and 2.2 of Law 5/2015, of 27 April, and b) develop the methodology and template for preparing a standardised risk rating assessment report, which must also be included in the aforementioned document. The entry into force of this circular did not have a material impact on the Bank or the information shown in these financial statements.

Bank of Spain Circular 7/2016, of 29 November, implementing the specific accounting rules to be observed by banking foundations and amending Bank of Spain Circular 4/2004, of 22 December, 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.

This circular aims to regulate the regime for separate and consolidated financial statements of banking foundations regulated in Law 26/2013, as well as the regime for the confidential statements that must be submitted to the Bank of Spain. The entry into force of this circular did not have a material impact on the Bank or the information shown in these financial statements.

1.12.2 Amendments and adoption of new International Financial Reporting Standards and interpretations issued

The accounting policies used in preparing the consolidated financial statements for the year ended 31 December 2016 are the same as those applied in the consolidated financial statements for the year ended 31 December 2015, except for the standards and interpretations that have come into force and are applicable to annual reporting periods beginning on or after 1 January 2016, which are indicated below:

New standards, amendments and interpretations	Description
Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)	Clarify the acceptable methods of depreciation and amortisation of property, plant and equipment and intangible assets, which do not include methods that are based on revenue.
Amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)	Provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.
Amendments to IASs 16 and 41, Bearer Plants (issued in June 2014)	Bearer plants shall be measured at cost rather than at fair value.
Improvements to IFRSs, 2012-2014 cycle (issued in September 2014)	Minor amendments to a series of standards.
Amendments to IAS 27, Equity Method in Separate Financial Statements (issued in August 2014)	The amendments permit the use of the equity method in the separate financial statements of an investor.
Amendments to IAS 1, Disclosure Initiative (issued in December 2014)	Various clarifications in relation to disclosures (materiality, aggregation, order of specific items within the notes to the financial statements, etc.).
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities (issued in December 2014)	Clarifications on the consolidation exception for investment entities.

During 2016, the only International Financial Reporting Standards applied for the first time by the Group in preparing its financial information were those amended by Improvements to IFRSs, 2010-2012 cycle (minor amendments to a series of standards), applicable in annual reporting periods that began on or after 1 January 2016.

The application of these amendment did not have a material impact on the consolidated financial statements for 2016.

At the date of formal preparation of these consolidated financial statements, the following standards, amendments and interpretations had been published by the International Accounting Standards Board ("IASB") but had not been approved by the European Union, as a result of which they were not mandatorily applicable and, therefore, were not applied in these consolidated financial statements for 2016:

New standards, amendments and interpretations	Description
Clarifications to IFRS 15 (issued in April 2016)	Focus on identifying performance obligations, principal versus agent considerations, licensing and determining whether a license is satisfied at a specific point in time or over time, as well as certain clarifications to the transition requirements.
IFRS 16, Leases (issued in January 2016)	Supersedes IAS 17 and the related interpretations. The main development of the new standard is that it introduces a single lessee accounting model in which all leases (with certain limited exceptions) will be recognised in the balance sheet with an impact similar to that of the existing finance leases (depreciation of the right-of-use asset and a finance cost for the amortised cost of the liability will be recognised).
Amendments and/or interpretations	
Amendments to IAS 7, Disclosure Initiative (issued in January 2016)	Introduce additional disclosure requirements in order to improve the information provided to users.
Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016)	Clarification of the principles established for recognition of deferred tax assets for unrealised losses.
Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (issued in June 2016)	These are limited amendments that clarify specific issues such as the effects of vesting conditions on cash-settled share-based payments, the classification of share-based payment transactions with a net settlement feature and certain issues relating to modifications of the type of share-based payment arrangement.
Amendments to IFRS 4, Insurance Contracts (issued in September 2016)	Provide entities within the scope of IFRS 4 with the option of applying IFRS 9 (overlay approach) or the temporary exemption therefrom.
Amendments to IAS 40, Transfers of Investment Property (issued in December 2016)	The amendments clarify that transfers to, or from, investment property will only be possible when there is evidence of a change in use.
Improvements to IFRSs, 2014-2016 cycle (issued in December 2016)	Minor amendments to a series of standards (various effective dates).
IFRIC 22, Foreign Currency Transactions and Advance Consideration (issued in December 2016)	This interpretation establishes "the date of the transaction" for the purpose of determining the exchange rate to use in transactions with advance consideration in a foreign currency.
Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	Clarification in relation to the gain or loss resulting from such transactions involving a business or assets.

The Group intends to adopt these standards and amendments, if they are ultimately applicable to it, when they come into force, and it is currently analysing their impact.

All accounting principles and measurement bases with a material effect on the consolidated financial statements for 2016 were applied in their preparation.

2. Accounting policies and measurement bases

In preparing the Group's consolidated financial statements for 2016, the following accounting principles and policies and valuation criteria have been applied:

2.1. Investments

2.1.1. Subsidiaries.

“Subsidiaries” are defined as entities over which the Group has the capacity to exercise control; control is, in general but not exclusively, presumed to exist when the Bank owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when there are other circumstances or agreements that give the Bank control.

As provided for in IAS 10, Consolidated Financial Statements, an entity controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Annex I of this consolidated report provides relevant information on these companies.

The financial statements of the subsidiaries are consolidated with those of the Group using the full consolidation method as defined in IAS 10. Consequently, the following methods, inter alia, were applied in the consolidation process:

1. All material balances and transactions between the consolidated companies, and any material gains or losses on intra-Group transactions not realised vis-à-vis third parties, were eliminated on consolidation.

2. The value of minority interests in equity and income of subsidiaries is presented in the "Minority Interests" caption on the liability side of the consolidated balance sheet and in the "Attributable to Minority Interest" caption in the loss account and consolidated earnings, respectively, if any.

3. The variation experienced from the date of acquisition in the net assets of the consolidated subsidiaries, which is not attributable to the results of the year or to changes in their valuation adjustments, is included under "Other Reserves" in the consolidated balance sheet.

4. The consolidation of the results generated by the subsidiaries acquired in a fiscal year is carried out taking into account only those corresponding to the period between the date of acquisition and the close of that year. At the same time, the consolidation of the results generated by the subsidiaries disposed of in the year is carried out taking into account only those relating to the period between the beginning of the year and the date of disposal.

2.1.2. Jointly controlled entities.

“Jointly controlled entities” are deemed to be those entities that are subject to joint control by two or more entities called “venturers” under an arrangement whereby none of the venturers controls the entity individually, but rather they do so jointly with the other venturers, which means that the power to direct decisions about the relevant activities of the entity requires the unanimous consent of the parties sharing control.

Shares in joint ventures are valued using the equity method defined in IAS 28.

At 31 December 2016 and 2015, the Group has not, and has not had during such years, holdings in multigroup entities.

On 11 November 2014, the shareholders of Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A., including Cecabank, S.A., entered into an agreement to sell all their shares in this company. At 31 December 2014, the application of this agreement was subject to fulfilment of the condition precedent consisting of the approval of the sale by the supervisors and, therefore, this sale was not recognised in these consolidated financial statements, pending fulfilment of the aforementioned condition precedent. On April 9, 2015, the suspensive condition was satisfied and the sale of this stake was formalized, generating a positive result for the Group of € 3,272 thousand, which is accounted for, among other items, under the heading "Deterioration Of value or reversal of the impairment of investments in subsidiaries, joint ventures or associates "in the consolidated income statement for the year 2015.

2.1.3. Associated Entities

"Associates" are defined as companies over which the Group is in a position to exercise significant influence, but not control or joint control. Significant influence generally exists when the bank holds - directly or indirectly - 20% or more of the voting power of the investee.

In general, investments in associates are accounted for using the equity method as defined in IAS 28. However, any investments in associates that qualify for classification as non-current assets held for sale are recognized, when applicable, under "Non-current assets and disposal groups classified as held for sale" in the consolidated balance sheet and are measured in accordance with the policies applicable to these assets (See Note 2.16).

At 31 December 2016 and 2015, the Group held 22.49% of the share capital of Eufiserv Payments, S.C.R.L. This investee was not considered to be an associate either at 31 December 2016 or at 31 December 2015 since, although the Bank owns 22.49% of its voting power, it does not exercise significant influence over it. As a result, this investment is classified in these consolidated financial statements under "Available-for-Sale Financial Assets - Equity Instruments" in the consolidated balance sheet as at those dates and is measured at cost, in accordance with the criteria explained in Note 2.2.4.

The Group did not have any investments in associates at 31 December 2016 or 2015, or during either of these years.

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 consolidated balance sheet when the Group 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 2.8).

Also, a financial liability is derecognized when the obligations it generates have been extinguished or when it is purchased by the Group, 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, in case of existence, 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.

At 31 December 2016 and 2015, the Group has contracted several temporary asset purchase transactions (see Notes 8.2.1 and 10), at the maturity date of which the debtors must be reimbursed the ownership of the securities that constitute the collateral. At 31 December 2016 and 2015, the fair value of the securities received as collateral in these operations of temporary acquisition of assets does not differ significantly from the carrying amount 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 4/2004,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

Financial instruments are classified in the Group's consolidated balance sheet as follows:

- Financial assets and liabilities at fair value through profit or loss: pursuant to current legislation, this category includes financial instruments classified as held for trading and other financial assets and liabilities classified at fair value through profit or loss:

    - Financial assets held for trading include those acquired for the purpose of selling them in the near term or those which are 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 and derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to the applicable standards.

    - 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 financial assets acquired under non-optional resale agreements or borrowed securities, and financial derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to the applicable standards.

    - Other financial assets at fair value through profit or loss are financial assets designated as such from their initial recognition, whose fair value may be estimated reliably and that meet any of the following requirements:

        - In the case of hybrid financial instruments for which it is compulsory to separate the embedded derivative(s) from the host contract, the fair value of the embedded derivative(s) cannot be estimated reliably.

        - In the case of hybrid financial instruments for which it is mandatory to separate the embedded derivative(s), the Group elected from their initial recognition to classify the entire hybrid financial instrument under this category, since the requirements established by current regulations were met in the sense that the embedded derivative(s) significantly alter the cash flows that the host contract would have had if it had been considered separately from the embedded derivative(s) and that there is an obligation to separate for accounting purposes the embedded derivative(s) from the host contract.

- As a result of classifying a financial asset in this category, **more relevant information is obtained** because such designation eliminates or significantly reduces inconsistencies in recognition or measurement (also known as accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognizing the related gains or losses on different bases or because the gain value basis reflects the management strategy or the evaluation of the investment followed by the Management, as established in the applicable regulations.

Note 8 contains details on the financial instruments classified in this category.

- o **Other financial liabilities at fair value through profit or loss** are financial liabilities designated as such from their initial recognition, whose fair value may be estimated reliably and that meet any of the following requirements:

  - In the case of **hybrid financial instruments** for which it is compulsory to separate the embedded derivative(s) from the host contract, the fair value of the embedded derivative(s) cannot be estimated reliably.

  - In the case of **hybrid financial instruments** for which it is mandatory to separate the embedded derivative(s), the Group elected from their initial recognition, to classify the entire hybrid financial instrument under this category, since the requirements established by current regulations were met in the sense that the embedded derivative(s) significantly alter the cash flows that the host contract would have had if it had been considered separately from the embedded derivative(s) and that there is an obligation to separate for accounting purposes the embedded derivative(s) from the host contract.

- As a result of classifying a financial liability in this category, **more relevant information is obtained** because such designation eliminates or significantly reduces inconsistencies in recognition or measurement (also known as accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognizing the related gains or losses on different bases or because the fair value basis reflects management’s investment management or assessment strategy, as established in the applicable regulations.

Note 8 contains details on the financial instruments classified in this category.

Only financial instruments which, from their initial recognition, would have been classified as financial assets and liabilities at fair value through profit or loss are included in this category.

Financial instruments designated at fair value through profit or loss are initially measured at fair value. Subsequent to their acquisition, instruments classified in this category continue to be measured at fair value on each balance sheet date, with changes in fair value being recorded with a corresponding entry in the captions " Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net " and "Gains or losses on financial assets and liabilities held for trading, net" in the consolidated income statement, taking into account the category in which the financial instruments originate, except of the changes in such fair value due to the accrued income of the financial instrument, other than those derived from trading, which will be recorded in the "Interest income", "Interest expenses" or "Dividend income" consolidated profit and loss account, based on their nature and the variations in the fair value of those derivatives that have as underlying the exchange rate variable of the foreign currency, whose changes in the fair value due to this variable are recorded under the heading "Exchange differences, net" of the consolidated income statement. Interest on the debt instruments included in this category is calculated using the effective interest rate method.Notwithstanding the foregoing, financial derivatives that have as their underlyings equity instruments whose fair value cannot be determined in a sufficiently objective manner and are settled by delivery of those instruments are measured, where appropriate, at cost.

- **Loans and receivables**: pursuant to current legislation, this category includes unquoted debt instruments, financing granted to third parties in connection with ordinary lending activities carried out by the Group (other than those classified at fair value through profit or loss) and receivables from users of services.

The financial assets included in this category are initially measured at fair value adjusted by the amount of the fees and commissions and transaction costs that are directly attributable to the acquisition or arrangement of the financial asset and which, in accordance with IAS 39, must be allocated to the consolidated income statement by the effective interest method through maturity. Subsequent to acquisition, assets included in this category are measured at amortized cost.

Assets acquired at a discount are measured at the cash amount paid and the difference between their repayment value and the amount paid is recognized as finance income using the effective interest method during the remaining term to maturity.

The Group generally intends to hold the loans and credits included in this category granted by it until their final maturity and, therefore, they are presented in the consolidated balance sheet at their amortized cost.

The interest accrued on these assets, which is calculated using the effective interest method, is recognized under “Interest and Similar Income” in the consolidated income statement. Exchange differences on assets included in this portfolio denominated in currencies other than the euro are recognized as set forth in Note 2.5. Any impairment losses on these assets are recognized as explained in Note 2.9.

- **Available-for-sale financial assets**: this category includes debt instruments not classified as held-to-maturity investments, as loans and receivables or as financial assets at fair value through profit or loss and equity instruments owned by the Group relating to entities other than subsidiaries, jointly controlled entities or associates that are not classified at fair value through profit or loss.

The instruments included in this category are initially recognized at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognized in the consolidated income statement by the effective interest method, except for those relating to financial assets with no fixed maturity, which are recognized in the consolidated income statement when the assets become impaired or are derecognized. Subsequent to acquisition, financial assets included in this category are measured at fair value at each reporting date.

However, equity instruments whose fair value cannot be determined in a sufficiently objective manner are measured in these consolidated financial statements at cost, net of any impairment loss, calculated as detailed in Note 2.9.

Changes in the fair value of available-for-sale financial assets relating to accrued interest or dividends are recognized under “Interest Income" (calculated using the effective interest method) and “Income from Equity Instruments” in the consolidated income statement, respectively. Any impairment losses on these instruments are recognized as described in Note 2.9. Exchange differences on financial assets denominated in currencies other than the euro are recognized as explained in Note 2.5.

The remaining changes in fair value since their acquisition are recorded with a corresponding entry in the consolidated balance sheet heading "Equity - Other comprehensive income - Items that may be reclassified to profit and loss - Available-for-sale financial assets" until the financial asset is derecognised, at which point, the balance recorded in this caption is recorded in the consolidated income statement under "Gains or losses on disposal of financial assets and liabilities not valued at fair value through profit or loss, net "or, in the case of capital instruments that are strategic investments for the Group, under "Gains or losses arising from non-current assets and disposal groups of items classified as held for sale as inadmissible as discontinued activities ".

- **Held-to-maturity investments:** pursuant to current legislation, this category includes, in case of existence, debt instruments traded on organized markets with fixed maturity and with fixed or determinable cash flows that, from inception and at any subsequent date, are held with the positive intention and financial ability to hold to maturity.

Debt instruments included in this category are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognized in the consolidated income statement by the effective interest method as defined in IAS 39. They are subsequently measured at amortized cost calculated using the effective interest method.

The interest accrued on these liabilities, which is calculated using the effective interest method, is recognized under “Interest Income” in the consolidated income statement. Exchange differences on liabilities included in this portfolio denominated in currencies other than the euro are recognized as set forth in Note 2.5. Any impairment losses on these securities are recognized as explained in Note 2.9.

At 31 December 2016 and 2015 and throughout those years the Group did not have any financial instruments classified in this category.

- **Financial liabilities at amortized cost:** this category includes the Group's financial liabilities not included in any other category.

The financial liabilities included in this category are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the issue or arrangement of the financial liability, which are recognized in the consolidated income statement by the effective interest method (as defined by IAS 39) through maturity. Subsequently, these financial liabilities are measured at amortized cost calculated using the effective interest method as defined in IAS 39.

The interest accrued on these liabilities, which is calculated using the effective interest method, is recognized under "Interest Expenses" in the consolidated income statement. Exchange differences on liabilities included in this category denominated in currencies other than the euro are recognized as set forth in Note 2.5.

2.3 Reclassification between financial instrument portfolios

Reclassifications between financial instrument portfolios can only be made, where appropriate, as follows:

a) Except in the circumstances indicated in paragraph d) below, financial instruments classified as "at fair value through profit or loss" cannot be reclassified into or out of this financial instrument category once they have been acquired, issued or assumed.

b) If, as a result of a change in intention or financial ability of an entity, it is no longer appropriate to classify a financial asset as held to maturity, it is reclassified into the "available-for-sale financial assets" category. In this case, the same treatment shall be applied to all the financial instruments classified as held-to-maturity investments, unless the reclassification is made in any of the circumstances permitted under the applicable regulations (sales very close to maturity, substantially all of the financial asset's original principal has been collected, etc.).

In 2016 and 2015, the Group did not hold any securities classified as held-to-maturity investments and, therefore, it did not perform any reclassifications of the type described in the preceding paragraph.

c) If there is a change in the Group's intention or financial ability, or if the two penalty financial years established by the regulations applicable to the sale of financial assets classified in the held-to-maturity investment category (see paragraph b) above) have passed, the financial assets (debt instruments) included in the "available-for-sale financial assets" category can be reclassified into the "held-to-maturity investments" category. In this case, the fair value of these financial instruments on the date of reclassification becomes their new amortized cost and the difference between this amount and the redemption value is allocated to the consolidated income statement over the remaining life of the instrument using the effective interest method.

No reclassifications of the type described in the preceding paragraph were made in 2016 or 2015.

d) A non-derivative financial asset may be reclassified out of the held-for-trading category if it is no longer held for the purpose of selling or repurchasing it in the near term, provided that one of the following circumstances arises:

    a. In rare or exceptional circumstances, unless the assets could have been included since its contract in the loans and receivables category. For these purposes, rare and exceptional circumstances are those arising from a particular event, which is unusual and highly unlikely to recur in the foreseeable future.

    b. When the entity has the intention and financial ability to hold the financial asset for the foreseeable future or until maturity, provided that the asset had met the definition of loans and receivables at initial recognition.

In these circumstances, the financial asset is reclassified at its fair value on the date of reclassification, any gain or loss already recognized in profit or loss is not reversed, and this fair value becomes its amortized cost. The financial assets so reclassified can in no case be reclassified again into the held-for-trading category.

No reclassifications of the type described in the preceding paragraph were made by the Group during 2016 and 2015.

2.4 Hedge accounting and mitigation of risk

The Group uses financial derivatives as part of its strategy to reduce its exposure to interest rate, foreign currency and other risks. When these transactions meet the requirements stipulated in IAS 39, they qualify for hedge accounting.

When the Group designates a transaction as a hedge it does so upon initial recognition of it, documenting 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 Group to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

The Group 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 Group analyses whether, from the beginning to the end of the term defined for the hedge, the Group 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 Group are classified in the fair value hedge category. 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 consolidated income statement.

In relation to the financial instruments designated as hedged items and hedge accounting in fair value hedges such as those made by the Group, the differences produced in fair value, both in the hedged items and in the hedged items (in this case, those associated with the risk covered) are recognised directly under "Gains or losses arising from the accounting of hedges, net" in the consolidated income statement (see Note 33).

The Group 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 consolidated income statement through maturity of the hedged items, using the effective interest rate recalculated as at the date of discontinuation of hedge accounting.

Note 11 details the nature of the main positions hedged by the Group and the financial hedging instruments used.

2.5. Foreign currency transactions

2.5.1. Functional currency

The functional and reporting currency of the Group 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 consolidated balance sheets at 31 December 2016 and 2015, taking into account the nature of the items that comprise them and the most significant currencies in which they are denominated, is as follows:

Nature of Foreign Currency Balances	Equivalent Value in Thousands of Euros (*)			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Balances in US dollars-				
Cash	39,244	-	19,992	-
Financial assets/liabilities held for trading	738	2,109	778	7,686
Demand deposits and loans and receivables	288,234	-	162,951	-
Financial liabilities at amortised cost	-	1,092,580	-	649,287
Other assets and liabilities	40,099	-	37,738	496
	368,315	1,094,689	221,459	657,469
Balances in Japanese yen-				
Cash	669	-	615	-
Demand deposits and loans and receivables	43,445	-	58,716	-
Financial liabilities at amortised cost	-	207,776	-	140,657
	44,114	207,776	59,331	140,657
Balances in pounds sterling-				
Cash	30,508	-	17,477	-
Financial assets/liabilities held for trading	875	449	1,561	742
Demand deposits and loans and receivables	68,276	-	43,814	-
Financial liabilities at amortised cost	-	188,838	-	125,090
Other assets and liabilities	84	189	91	230
	99,743	189,476	62,943	126,062
Balances in Swiss francs-				
Cash	4,194	-	2,400	-
Demand deposits and loans and receivables	7,193	-	8,718	-
Financial liabilities at amortised cost	-	92,294	-	57,654
Other assets and liabilities	-	9	-	-
	11,387	92,303	11,118	57,654
Balances in Norwegian kroner-				
Cash	1,078	-	752	-
Demand deposits and loans and receivables	3,153	-	2,515	-
Financial liabilities at amortised cost	-	33,831	-	30,786
Other assets and liabilities	2	2	3	2
	4,233	33,833	3,270	30,788
Balances in Swedish kronor-				
Cash	972	-	561	-
Demand deposits and loans and receivables	3,302	-	4,549	-
Financial liabilities at amortised cost	-	47,218	-	33,987
	4,274	47,218	5,110	33,987
Balances in other currencies-				
Cash	8,523	-	6,034	-
Demand deposits and loans and receivables	24,324	-	11,617	-
Financial liabilities at amortised cost	-	106,008	-	97,938
	32,847	106,008	17,651	97,938
Total foreign currency balances	564,913	1,771,303	380,882	1,144,555

(*) Countervalue calculated using exchange rates at 31 December 2016 and 2015, respectively.

In addition to the currency positions recognized in the consolidated balance sheets at 31 December 2016 and 2015 shown in the preceding table, the Group 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 sheet positions for a correct understanding of the Group's exposure to such risks (see Note 23).

2.5.2. Translation of foreign currency balances

Translation of foreign currency to the functional currency: foreign currency transactions performed by Group 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.

- Income and expenses are translated at the exchange rate prevailing at the transaction date.

Foreign currency balances are translated to euros in two consecutive stages:

- Translation of foreign currency to the functional currency for each Group entity and joint venture.

- Translation to euros of the balances of the consolidated companies whose presentation currency is not the euro.

Entities whose reporting currency is not the euro: the balances in the financial statements of consolidated entities whose functional currency is not the euro are translated to euros as follows:

1. Assets and liabilities, at the closing rates.

2. Income, expenses and cash flows, at the average exchange rates for the year.

3. Equity items, at the historical exchange rates.

2.5.3. Exchange rates

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

2.5.4 Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances (using the aforementioned translation methods) to the functional currency of the Group are generally recognized at their net amount under “Exchange Differences (net)” in the consolidated income statement.

Notwithstanding the foregoing, are registered, in case, in the consolidated equity caption "Other accumulated net result - Items that may be reclassified to profit and loss" of the consolidated balance sheet until such time as they are made, exchange differences arising on non-monetary items whose fair value is adjusted with a corresponding entry in the consolidated equity, as well as those exchange differences that are evidenced, as the case may be, by the translation into euros of the consolidated financial statements of the consolidated entities whose financial statements are not denominated in euros. At the time of realization, the exchange differences charged to the consolidated equity of the Group are recorded in the consolidated income statement.

2.6. Recognition of Income and Expenses

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

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

Interest income, interest expenses, dividends and similar items are generally recognized on an accrual basis using the effective interest method as defined in IAS 39. Dividends received from other companies, other than those received from Group companies, jointly controlled entities or associates, as the case may be, are recognized as income when the Group’s right to receive them arises.

2.6.2. Commissions, fees and similar items

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 consolidated income statement using criteria that vary according to their nature. The main criteria are as follows:

- Commission income and expenses relating to the acquisition of financial assets and liabilities measured at fair value through profit or loss are recognized, in case of existence, in the consolidated income statement when collected or paid.

- Those arising from transactions or services that are performed over a period of time, such as fees and commissions arising from custody services, are recognized in the consolidated income statement over the life of these transactions or services.

- Those relating to services provided in a single act are recognized in the consolidated income statement when the single act is carried out.

2.6.3. Non-finance INCOME and expenses

These are recognized for accounting purposes on an accrual basis.

2.7. Offsetting

Asset and liability balances must be offset and, therefore, the net amount thereof is presented in the consolidated balance sheet only when they arise from transactions in which, contractually or by law, offsetting is permitted and the Group intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

In this regard, the presentation required by the applicable legislation in these consolidated financial statements in respect of the financial assets subject to valuation adjustments for decline in value or impairment, i.e. net of these adjustments, is not deemed to be “offsetting”.

2.8. 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 Group 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 Group substantially transfers the risks and benefits if the risks and rewards transferred represent the majority of the total risks and rewards of the transferred assets.

- If the Group 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 Group 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 consolidated 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 27.5 contain a summary of the main circumstances of the principal transfers of assets outstanding at 2016 and 2015 year-end which did not lead to the derecognition of the related assets (securities lending transactions and sales of asset under non-optional repurchase agreements).

2.9 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 receivables 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.

In this connection, the situations whose occurrence is considered by the Group as objective evidence that a financial instrument might be impaired, and which give rise to a specific analysis of these financial instruments in order to determine the amount of their possible impairment, include those indicated in IAS 39 and other applicable regulation. The situations that constitute objective evidence for the Group of the possible impairment of a financial instrument include the following:

a) significant financial difficulty of the issuer or obligor;

b) breach of the contract, such as default on or delayed payments of interest or principal;

c) when the Group, for economic or legal reasons relating to financial difficulties of the borrower, grants the borrower concessions or advantages that it would not otherwise have granted, in conformity with the requirements established in the legislation applicable to the Group at all times;

d) when it is considered probable that the borrower will be declared bankrupt or undergo any other form of financial reorganization relating to difficulties to meet its payment obligations;

e) when an active market for the financial asset in question ceases to exist due to financial difficulties of the debtor or of the counterparty of the risk assumed by the Group; or

f) when observable data evidence a decrease in the estimated future cash flows in a homogenous group of financial assets since their initial recognition, even though the decrease cannot yet be identified with individual assets in the group. These data include:

i) adverse changes in the ability to pay of the borrowers in the group, (such as a growing number of delayed payments, debtors that display an inadequate financial structure or any other type of difficulty in meeting their payment obligations), or

ii) changes in local or domestic economic conditions that correlate with defaults on the assets in the Group, (such as an increase in the unemployment rate in the geographical area of the borrowers or adverse changes in industry conditions that affect the parties borrowing from the Group).

g) for equity instruments, information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, as well as the specific situations affecting the entities invested in and which indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment, although it requires an analysis by the Group in order to ascertain whether this decrease actually relates to impairment of the investment thus allowing the Group to conclude that the amount invested by it will not be recovered.

As a general rule, despite of the aforementioned criteria, the carrying amount of impaired financial instruments is adjusted with a charge to the consolidated income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognized impairment losses is recognized in the consolidated income statement for the period in which the impairment is reversed or reduced.

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 Group 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 Group 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:

2.9.1. 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 present value of its estimated future cash flows. The market value of quoted debt instruments is deemed to be a reliable estimate of the present value of their future cash flows.

In estimating the future cash flows of debt instruments the following factors are taken into account:

- All the amounts that are expected to be obtained over the remaining life of the instrument, including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral).

- The various types of risk to which each instrument is subject; and

- The circumstances in which collections will foreseeably be made.

These cash flows are subsequently discounted using the instrument's effective interest rate (if its contractual rate is fixed) or the effective contractual rate at the discount date (if it is variable).

Specifically as regards impairment losses resulting from materialization of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency:

- When there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons, and/or;

- When country risk materializes: country risk is defined as the risk that is associated with debtors resident in a given country due to circumstances other than normal commercial risk.

Impairment losses on these assets resulting from materialization of the insolvency risk of the obligors (credit risk) are assessed as follows:

- Individually, for all significant debt instruments and for instruments which, although not material, are not susceptible to being classified in homogeneous groups of instruments with similar risk characteristics: instrument type, debtor's sector and geographical location, type of guarantee or collateral, age of past-due amounts receivable, etc.

- Collectively: the Group classifies transactions on the basis of the nature of the obligors, the conditions of the countries in which they reside, transaction status and type of collateral or guarantee, age of past-due amounts, etc. For each risk group it establishes the impairment losses ("identified losses"), which must be recognized in the financial statements consolidated, applying the parameters established by the Bank of Spain. Impairment losses are estimated taking into account the possibility of collection of the interest accrued on these impaired assets.

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The amount of impairment losses on debt instruments measured at amortized cost or, if applicable, their subsequent reversal, estimated in accordance with the criteria set forth above, are recorded under "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss - Loans and receivables " and "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss - Available-for-sale financial assets" , depending on the category of financial instruments in which these debt instruments are classified (see Note 2.2.).

2.9.2. Debt instruments classified as available for sale

The amount of the impairment losses on debt instruments included in the available-for-sale financial asset portfolio is the positive difference between their acquisition cost (net of any principal repayment or amortization) and their fair value less any impairment loss previously recognized in the consolidated income statement.

In the case of impairment losses arising due to the insolvency of the issuer of the debt instruments classified as available for sale, the procedure followed by the Group for calculating such losses is the same as the method used for debt instruments carried at amortized cost explained in section 2.9.1 above.

When there is objective evidence that the losses arising on measurement of these assets are due to impairment, they are removed from the equity item “Accumulated Other Comprehensive Income – Items that May Be Reclassified to Profit or Loss – Available-for-Sale Financial Assets” in the Group's consolidated balance sheet and are recognised, for their cumulative amount, under “Impairment or Reversal of Impairment on Financial Assets Not Measured at Fair Value through Profit or Loss” in the consolidated income statement. If all or part of the impairment losses are subsequently reversed, the reversed amount is recognised in the consolidated income statement for the period in which the reversal occurs, with a credit to “Impairment or Reversal of Impairment on Financial Assets Not Measured at Fair Value through Profit or Loss”.

Similarly, the impairment losses arising on measurement of debt instruments classified as “Non-current assets and disposal groups classified as held for sale” which are recognized in the Group's consolidated equity are considered to be realized and, therefore, are recognized in the consolidated income statement when the assets are classified as “Non-current assets and disposal groups classified as held for sale”.

2.9.3. Equity instruments classified as available for sale

The impairment losses on equity instruments included in the available-for-sale financial asset portfolio are the positive difference between their acquisition cost and their fair value less any impairment loss previously recognized in the consolidated income statement.

The criteria for recognizing impairment losses on equity instruments classified as available for sale are similar to those for debt instruments classified as available for sale (as explained in Note 2.9.2), with the exception that any reversal of these losses is recognized in consolidated equity under “Accumulated Other Comprehensive Income – Items that May Be Reclassified to Profit or Loss – Available-for-Sale Financial Assets” rather than in the consolidated income statement.

2.9.4. Equity instruments carried at cost

The amount of the impairment losses on equity instruments carried at cost is the positive difference between their carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Impairment losses are recognized in the consolidated income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses can only be reversed subsequently if the related assets are sold.

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 Group, etc.

In accordance with EU-IFRSs, the financial guarantees provided by the Group are treated as financial instruments.

The Group initially recognises the financial guarantees provided on the liability side of the consolidated balance sheet at their fair value (plus any transaction costs directly attributable to them), which is generally the amount of the premium received plus, where appropriate, the present value of the fees, commissions and interest receivable from those contracts over their term and, as a balancing entry, it recognises, on the asset side of the consolidated balance sheet, the amount of the fees, commissions and similar interest received at inception of the transactions and the amounts receivable relating to the present value of the fees, commissions and interest outstanding. Subsequent to their initial recognition, these contracts are recognised on the liability side of the consolidated balance sheet at the higher of the following two amounts:

- The amount determined in accordance with IAS 37. In this connection, financial guarantees, 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 amortised cost (described in Note 2.9 above).

- The amount initially recognised for these instruments, less the amortisation of this amount which, in accordance with IAS 18, is recognised in profit or loss on a straight-line basis over the term of these contracts.

The provisions made for these transactions are recognised under “Provisions - Commitments and guarantees granted” on the liability side of the consolidated balance sheet (see Note 17). These provisions are recognised and reversed with a charge or credit, respectively, to “Provisions or reversal of provisions” in the consolidated income statement.

If, based on the foregoing, a provision is required for these financial guarantees, the unearned commissions associated with these transactions recognised under “Financial Liabilities at Amortised Cost - Other Financial Liabilities” on the liability side of the consolidated balance sheet are reclassified to the appropriate provision.

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 accrued during the reporting period in the twelve months following the end of the reporting period.

Short-term employee remuneration is generally recognised 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 recognised while the employees render their services at the Group, as an accrued expense after deducting any amounts already paid.

2.11.2. Pension Obligations

Under the Collective Labour Agreement currently in force, 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 Group’s post-employment obligations to its employees are deemed to be "defined contribution plans" when the Group 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”.

For the coverage of its pension commitments maintained with employees of Cecabank, S.A., this entity has an external fund called "Employees of Cecabank, Pension Plan" whose management entity is Caser Pensions, Pension Funds Management Company, S.A., and contracted insurance policies. The external fund, in turn, comprises three subplans: a defined benefit plan (for employees hired by the Entity prior to 30 May 1986 who opted not to convert their benefits into defined contribution benefits in the previous years and for early retirees) and two defined contribution retirement benefit subplans (for employees hired by CECA prior to 30 May 1986 who opted in the previous years to convert their benefits into defined contribution benefits, as described below, and for employees hired by CECA or by the Bank after 29 May 1986 and for early retirees respectively). The pension plan also includes the obligations to the beneficiaries of the benefits.

In 2011, 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. 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 consolidated financial statements presents additional information on these obligations with regard to reconciliations, sensitivities and other disclosures required by the legislation applicable to the Group.

At 31 December 2016, the total amount of the Group's accrued commitments for unproven pensions and the pension commitments caused was EUR 193,664 thousand (31 December 2015: EUR 193,548 thousand). These obligations are covered by the aforementioned external pension fund and insurance policies, the fair value of which was EUR 198,835 thousand at 31 December 2016 (31 December 2015: EUR 196,932 thousand) and, therefore, the Group recognised a “Net Asset for Pensions” of EUR 5,171 and 3,384 thousand under “Other Assets - Other” in the accompanying consolidated balance sheet as at 31 December 2016 and 2015, respectively (see Note 15).

Actuarial assumptions used in calculating these post-employment obligations

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

a) The legal obligations assumed by the Group 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 recognised as a provision for defined benefit pension funds.

e) If the figure obtained in c) above is negative, it is recognised as "Other assets - Other". The Group measures, where appropriate, the recognised 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 Group, in the form of plan redemptions or reductions in future contributions to the plan.

f) Any changes in the recognised provision are recognised when they occur in line with d) above (or, where appropriate, the asset according to e) 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 recognised 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 consolidated 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 recognised in the consolidated statement of changes in equity should not be reclassified to the income statement in a future year.

In relation to the provisions of the preceding paragraph, to note that as of the application of the regulatory changes contained in the regulations applicable to the Bank contained in Circular 5/2013 of the Bank of Spain, from the financial year 2013, the gains and losses Actuarial liabilities that arise in the valuation of the defined benefit pension commitments are registered by the Bank in the year, which are shown with a charge or credit, according to its sign, under the caption "Other accumulated net result - Reclassified in profit or loss "in the accompanying consolidated balance sheets.

The defined contribution obligations are generally recognised at the amount of the contributions made by the Group in the year in exchange for the services rendered by employees in the same period, and are recognised as an expense for the year. In 2016 the portion of the accrued expense for the contributions to the external pension fund relating to defined contribution obligations of the Bank amounted to EUR 843 thousand (2015: EUR 1,386 thousand), and this amount was recognised under “Administrative Expenses - Staff Costs” in the income statement (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”). The premiums on these policies and on other insurance policies covering pension obligations and other obligations to employees totalled EUR 358 thousand in 2016 (2015: EUR 376 thousand), and this amount was recognised 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 subscribed agreements, as in previous years, by Cecabank, S.A. and by CECA (to which Cecabank, S.A. was subrogated by virtue of the spin-off of its activity to CECA as indicated in Note 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 pre-retirement agreements:

Pre-retirement agreements prior to 2013

On 7 April 2011, an agreement was entered into between 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 CECA's 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 Note 1.1, the Bank was subrogated to these obligations.

On 25 June 2012, an agreement additional to the one mentioned in the previous paragraph was entered into between Cecabank, S.A., 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 Cecabank, S.A., 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 the "Cecabank Employees Pension Plan" the Group 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 Group will continue to make the contributions required to maintain coverage of the retirement benefit established by the Group 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 Group 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 December 18, 2015, the Bank's Board of Directors approved a formal early retirement plan for certain Bank employees who met certain requirements, which was communicated to all employees at 23 December 2015 by the Works Council.

This Plan has been embodied in a collective agreement signed in 2016 between the Bank, the Trade Union Sections and the representatives of the Business Committee, based on the pre-retirement plan of 29 October 2013, which establishes, a three-year severance plan between 2016 and 2018, inclusive, for those employees who are 56 years old before 31 December 2018 and have a seniority of at least 10 years on the template to the date of their departure from the Bank.

The amount to be received by the employee during the pre-retirement situation is an amount equal to 75% of his gross fixed annual salary in active employment, with a maximum compensation limit of 150,000 euros per year and an annual minimum of 27,119 euros. At the option of the pre-retired worker, such compensation may be obtained in a single payment in the form of capital or monthly in 14 payments up to the age established in the Agreement.

The provisions recognised in 2015 for this pre-retirement plan, pursuant to the conditions indicated in the preceding paragraph, amounted to EUR 24,202 thousand, and they were recognised under "Provisions (Net)" in the income statement for 2015 (see Notes 17.1 and 35).

With regard to the accounting criteria applied to these 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 recognised directly in the Group's income statement in the year in which they are disclosed.

The obligations in respect of future salaries, future social security costs and incentives 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 76,166 thousand (EUR 91,094 thousand at 31 December 2015), which was recognized under “Provisions - Other long-term employee benefits” in the consolidated balance sheet (see Note 35) and related to early retirement obligations incurred as a result of the aforementioned Agreement dated 7 April 2011, 25 June 2012, 29 October 2013 and 18 December 2015. At 31 December 2016 and 2015 this provision covered the full amount of the Group'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 for death or disability of current employees are included in the benefits covered by the aforementioned pension fund.

2.11.3.3. Long-service bonuses

Cecabank, S.A. has undertaken to pay a bonus to employees reaching 25 years of service at the Entity.

The amounts paid in this connection at 2016 and 2015 year-end totaled approximately EUR 55 thousand and EUR 16 thousand, respectively, which are recognised under “Administrative Expenses - Staff Costs” in the accompanying consolidated income statement.

There are no other significant agreements of this nature for the Group other than those held with Cecabank, S.A.

2.11.4. Termination benefits

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

Also, the Group 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 Group, would be charged to the income statement when the decision to terminate the employment of the executive or director was made. The liability recognised for these purposes was included under “Other Liabilities” in the consolidated balance sheet.

The expense recorded in the consolidated income statement for 2016 in the form of termination benefits amounted to EUR 2,722 thousand (EUR 2,000 thousand at 31 December 2015), which are recorded under the heading "Administrative Expenses - Personnel expenses" in the consolidated income statement (see Note 35).

2.11.5. Loans to employees

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

Under the applicable industry collective labour agreement and pursuant to collective agreements reached by Cecabank, S.A. implementing it, employees 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 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 through the ALCO, indicating the exceptional circumstances.

These loans are recognized at amortized cost under "Loans and Receivables - Loans and Advances to Customers" in the consolidated balance sheet.

There are no other significant agreements of this nature for the Group to further maintained by Cecabank, S.A.

2.12. Income tax

The income tax expense is recognized in the consolidated income statement, except when it results from a transaction recognized directly in the Group´s equity, in which case the income tax is also recognized in the Group´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 Group 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 Group to make a payment to the related tax authorities. A deductible temporary difference is one that will generate a right for the Group 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 Group 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 Group 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 Group will obtain sufficient future taxable profit against which the deferred tax assets can be utilised; or they are deferred tax assets that the Group 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 Group 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.

On 3 December 2016, Royal Decree-Law 3/2016, of 2 December, adopting various tax measures aimed at consolidating public finances and other urgent social security and labour-related measures, was published in the Official State Gazette. It introduced changes to Spanish Income Tax Law 27/2004, of 24 November, establishing the following new features for tax periods beginning on or after 1 January 2016: (i) a limitation of the offset of prior years' tax losses for large companies, which will be limited to the following percentages of taxable profit prior to offset: for companies with revenue in the previous 12 months of more than EUR 60 million, 25%; for companies with revenue in the previous 12 months of between EUR 20 million and EUR 60 million, 50%; and for companies with revenue in the previous 12 months of less than EUR 20 million, 60%, (ii) a new limit on the application of double taxation tax credits arising in the year or carried forward from prior years, which may not, as a whole, exceed 50% of the taxpayer's gross tax payable and (iii) the compulsory reversal of impairment losses on ownership interests that were tax-deductible in tax periods prior to 2013 but not subsequently; the amounts reversed must be included in taxable profit for a minimum annual amount on a straight-line basis over five years. It also introduced changes for the tax periods beginning on or after 1 January 2017: (i) the non-deductibility of losses incurred in the transfer of ownership interests in entities that meet certain conditions, and (ii) in the case of non-monetary contributions qualifying for taxation under the tax neutrality regime, a deferral of income is introduced.

The entry into force of this Royal Decree-Law and the aforementioned amendments to tax legislation did not have any significant effects on the balances recognised by the Group in these financial statements.

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 Group 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 stated in the consolidated balance sheet at cost 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 tangible asset depreciation charge is recognized under “Amortisation” in the consolidated 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 Group 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 – Tangible assets" in the consolidated income statement.

Similarly, if there is an indication of a recovery in the value of a previously impaired tangible asset, the Group 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 – Tangible assets" in the consolidated 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 are no longer intended for such use and for which there is a sale plan by the Management, which is estimated to be carried out within a maximum period of one year, are classified as non-current assets held for sale and are valued according to the criteria indicated in Note 2.16.

2.13.2. Investment property

The "Investment Property" in the consolidated 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 Group. Only intangible assets whose cost can be estimated reasonably objectively and from which the Group 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 recognised under "Amortisation" in the consolidated income statement.

2.14.1. Other intangible assets

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

At 31 December 2016 and 2015, "Intangible Assets - Other Intangible Assets" includes, primarily, the acquisition cost, net of accumulated amortisation and impairment, of certain rights of the securities depository business of certain collective investment undertakings and pension funds acquired in 2015 and prior years.

Intangible assets with finite useful lives are amortised 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 recognised 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 Group 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 amortisation 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 recognised, if necessary, with a charge to "Impairment or Reversal of Impairment on Non-Financial Assets - Intangible Assets" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised 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

When preparing the financial statements, the directors made a distinction between:

- Provisions: credit balances covering present obligations at the balance sheet date arising from past events which could give rise to a loss for the, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing; and

- Contingent liabilities: possible obligations 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.

The Group's financial statements include its case all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognized in the financial statements, but rather are disclosed, as required by the applicable standards.

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 or (reserval) of provisions” in the consolidated income statement.

2.15.1. Litigation and/ or claims in process

At the end of 2016 and 2015 certain litigation and claims were in process against the Group arising from the ordinary course of its operations. The Group'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 and disposal groups classified as held for sale” in the consolidated 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 Group and whose sale in their present condition is highly probable to be completed within one year from the date of the consolidated financial statements.

Investments in associates or jointly controlled companies 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.

Symmetrically, “Liabilities Associated with Non-Current Assets Held for Sale” in the consolidated balance sheet includes the balances payable, if any, associated with disposal groups and the Group's discontinued operations.

In general, non-current assets held for sale are initially 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.

Following their classification as non-current assets and disposal groups classified as held for sale, if the carrying amount of the assets exceeds their fair value less costs to sell, the Group adjusts the carrying amount of the assets by the amount of the excess with a charge to “Profit or Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations” in the consolidated income statement. If the fair value of such assets subsequently increases, the Group reverses the losses previously recognised and increases the carrying amount of the assets without exceeding the carrying amount prior to the impairment, with a credit to “Profit or Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations” in the consolidated income statement. Gains or losses on the sale of these assets are recognised with a credit or charge, respectively, to “Profit or Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations”.

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. Consolidated Cash flow statements

The following terms are used in the consolidated 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 available for sale which are strategic investments and debt instruments included in held-to-maturity investments.

- 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. Consolidated Statement of changes in equity

The consolidated 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. Consolidated Statement of recognized income and expense

The consolidated statement of recognized income and expense presents the income and expenses generated by the Group 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 consolidated income statement, pursuant to applicable legislation, and those that may not.

Accordingly, this statement presents:

a) Consolidated profit for the year.

b) The net amount of the income and expenses recognized in consolidated equity under “Valuation Adjustments”, which, pursuant to applicable legislation, will not be reclassified to the consolidated income statement.

c) The net amount of the income and expenses recognized directly in consolidated equity under “elements that will be reclassified into results”.

d) The "overall result of the consolidated financial year" calculated as the sum of the previous letters.

The changes in income and expenses recognized in consolidated equity under “Valuation Adjustments”, which may be reclassified to the consolidated income statement, are broken down as follows:

a) Revaluation gains/(losses): includes the amount of the income, net of the expenses incurred in the year, recognized directly in consolidated equity. The amounts recognized in the year under “Valuation Adjustments” are recorded in this line item, even though they are transferred in the same year to the consolidated income statement, to the initial value of other assets or liabilities, or are reclassified into another line item.

b) Amounts transferred to the consolidated income statement: includes the amount of the revaluation gains and losses previously recognized in consolidated equity, albeit in the same year, which are recognized in the consolidated 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 consolidated 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 at their gross amount, including at the end of both the elements that can be reclassified as a result in a separate item and the corresponding consolidated income tax.

2.18.2. Consolidated Statement of changes in total equity

The Consolidated 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 the correction of errors and changes in accounting policies: this category includes adjustments to consolidated equity arising as a result of the retroactive restatement of the financial statements that should be carried out in accordance with the provisions of applicable legislation, distinguishing between those corresponding to changes in accounting policies and those corresponding 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 recognised income and expense relating to the same date.

c) Other changes in equity: includes the changes recognised 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. Cecabank, S.A.

Cecabank is the parent of the Group. Its separate financial statements are prepared by applying the accounting principles and rules included in Bank of Spain Circular 4/2004, of 22 December, to credit institutions, on public and confidential financial reporting rules and formats.

The condensed consolidated financial statements of the Bank, for 2016 and 2015, for informative purpose are as follows:

Balance (Thousand of Euros):

ASSETS	2016	2015 (*)
Cash, cash balances at central banks and other demand deposits (Note 5)	**2,189,682**	**213,947**
Financial assets held for trading (Note 6.1)	**2,008,565**	**2,560,723**
Derivatives	1,250,753	1,362,311
Equity instruments	151,360	63,160
Debt securities	606,452	1,135,252
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*11,855*	*309,418*
Financial assets designated at fair value through profit or loss (Note 6.2)	**1,066,436**	**2,786,463**
Equity instruments	-	58,116
Debt securities	-	-
Loans and advances	1,066,436	2,728,347
Central banks	-	-
Credit institutions	898,579	2,698,393
Customers	167,857	29,954
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*104,405*	*332,398*
Available-for-sale financial assets (Note 7)	**3,321,501**	**4,202,012**
Equity instruments	67,519	89,080
Debt securities	3,253,982	4,112,932
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*74,850*	*716,426*
Loans and receivables (Note 8)	**1,215,503**	**1,883,279**
Debt securities	21,874	41,224
Loans and advances	1,193,629	1,842,055
Central banks	-	-
Credit institutions	703,194	1,074,610
Customers	490,435	767,445
Memorandum item: loaned or advanced as collateral with right to sell or pledge	*2,247*	*38,673*
Held-to-maturity investments	-	**-**
Memorandum item: loaned or advanced as collateral with right to sell or pledge	-	-
Derivatives - hedge accounting (Note 9)	**511**	**222**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	**-**
Investments in subsidiaries, joint ventures and associates (Note 11)	**416**	**416**
Group companies	416	416
Jointly controlled entities	-	-
Associates	-	-
Tangible assets (Note 12)	**53,195**	**53,363**
Property, plant and equipment	51,360	52,375
For own use	51,360	52,375
Leased out under an operating lease	-	-
Assigned to welfare projects	-	-
Investment property	1,835	988
Of which: leased out under an operating lease	-	-
Memorandum item: acquired under a finance lease	-	-
Intangible assets	**59,231**	**83,865**
Goodwill	-	-
Other intangible assets (Note 13)	59,231	83,865
Tax assets	**124,536**	**128,172**
Current tax assets	172	535
Deferred tax assets (Note 20)	124,364	127,637
Other assets (Note 14.1)	**34,003**	**51,697**
Insurance contracts linked to pensions	-	-
Inventories	-	6
Other	34,003	51,691
Non-current assets and disposal groups classified as held for sale (Note 10)	**18,110**	**18,487**
TOTAL ASSETS	**10,091,689**	**11,982,646**

LIABILITIES AND EQUITY	2016	2015 (*)
LIABILITIES		
Financial liabilities held for trading (Note 6.1)	**1,779,800**	**2,273,135**
Derivatives	1,346,084	1,327,114
Short positions	433,716	946,021
Deposits	**-**	**-**
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Debt securities issued		
Other financial liabilities		
Financial liabilities designated at fair value through profit or loss (Note 6.2)	**185,902**	**1,109,908**
Deposits	185,902	1,109,908
Central banks	-	-
Credit institutions	38,510	675,885
Customers	147,392	434,023
Debt securities issued	-	-
Other financial liabilities	-	-
Memorandum item: subordinated liabilities	-	-
Financial liabilities at amortised cost (Note 15)	**6,730,043**	**7,256,944**
Deposits	6,103,405	7,011,611
Central banks	-	-
Credit institutions	958,553	1,181,969
Customers	5,144,852	5,829,642
Debt securities issued	-	-
Other financial liabilities	626,638	245,333
Memorandum item: subordinated liabilities	-	-
Derivatives - hedge accounting (Note 9)	**3,966**	**4,418**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	**-**
Liabilities under insurance and reinsurance contracts	-	-
Provisions (Note 16)	**190,034**	**210,378**
Pensions and other post-employment defined benefit obligations	-	-
Other long-term employee benefits	76,166	91,094
Pending legal issues and tax litigation	19,663	6,321
Commitments and guarantees given	134	16
Other provisions	94,071	112,947
Tax liabilities (Note 20)	**44,956**	**44,214**
Current tax liabilities	12,033	4,376
Deferred tax liabilities	32,923	39,838
Share capital repayable on demand	-	-
Other liabilities (Note 14.2)	**137,680**	**112,714**
Liabilities included in disposal groups classified as held for sale	-	**-**
TOTAL LIABILITIES	**9,072,381**	**11,011,711**
EQUITY		
Shareholders' equity	**958,490**	**901,434**
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	-	-
Revaluation reserves	-	-
Other reserves (Note 19)	154,393	96,522
(-) Treasury shares	-	-
Profit for the year	76,347	77,162
(-) Interim dividends	-	-
Accumulated other comprehensive income	**60,818**	**69,501**
Items that will not be reclassified to profit or loss	9,462	8,260
Actuarial gains or losses on defined benefit pension plans (Note 17)	*9,462*	*8,260*
Non-current assets and disposal groups classified as held	-	-
for sale	-	-
Other valuation adjustments	-	-
Items that may be reclassified to profit or loss	51,356	61,241
Hedge of net investments in foreign operations	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges	-	-
Available-for-sale financial assets (Note 17)	*44,112*	*61,241*
Debt instruments	*39,389*	*45,247*
Equity instruments	*4,723*	*15,994*
Non-current assets and disposal groups classified as held for sale (Notes 10 & 17)	*7,244*	-
TOTAL EQUITY	**1,019,308**	**970,935**
TOTAL LIABILITIES AND EQUITY	**10,091,689**	**11,982,646**
MEMORANDUM ITEMS		
Guarantees given (Note 27.1)	**65,223**	**76,982**
Contingent commitments given (Note 27.3)	**280,446**	**412,074**

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Income Statements (Thousands of Euros):

	Income/(Expenses)	
	2016	2015 (*)
Interest income (Note 28)	111,106	67,414
Interest expenses (Note 29)	(73,133)	(20,618)
Expenses on share capital repayable on demand	-	-
A) NET INTEREST INCOME	37,973	46,796
Dividend income (Note 30)	33,841	5,474
Fee and commission income (Note 31)	134,269	128,130
Fee and commission expenses (Note 32)	(15,405)	(16,251)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net (Note 33)	16,511	15,588
Gains or losses on financial assets and liabilities held for trading, net (Note 33)	(38,902)	8,371
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net (Note 33)	(290)	(1,215)
Gains or losses from hedge accounting, net (Note 33)	(4,802)	(2,369)
Exchange differences, net	51,178	51,754
Other operating income (Note 34)	43,602	46,694
Other operating expenses (Note 37)	(4,049)	(4,251)
B) GROSS INCOME	253,926	278,721
Administrative expenses	(115,182)	(115,585)
Staff costs (Note 35)	(51,689)	(52,773)
Other administrative expenses (Note 36)	(63,493)	(62,812)
Depreciation and amortisation charge (Note 39)	(55,588)	(49,688)
Provisions or reversal of provisions (Note 16)	3,236	(32,251)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (Notes 22 & 38)	11,064	19,291
Financial assets measured at cost	-	-
Available-for-sale financial assets	(3,410)	(913)
Loans and receivables	14,474	20,204
Held-to-maturity investments	-	-
C) PROFIT FROM OPERATIONS	97,456	100,488
Impairment or reversal of impairment of investments in subsidiaries, joint ventures or associated (Note 11)	-	4,988
Impairment or reversal of impairment on non-financial assets	-	-
Tangible assets	-	-
Intangible assets	-	-
Other	-	-
Gains or losses on derecognition of non-financial assets and investments, net (Note 12)	(12)	
Of which: investments in subsidiaries, joint ventures and associates	-	-
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)	10,894	-
D) PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS	108,338	105,476
Tax expense or income related to profit or loss from continuing operations (Note 20)	(31,991)	(28,314)
E) PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS	76,347	77,162
Profit or loss after tax from discontinued operations	-	-
F) PROFIT FOR THE YEAR	76,347	77,162

Statements of recognised income and expense (Thousands of Euros):

	2016	2015 (*)
PROFIT FOR THE YEAR	**76,347**	**77,162**
OTHER COMPREHENSIVE INCOME	**(8,683)**	**(24,318)**
Items that will not be reclassified to profit or loss (Note 35)	**1,202**	**2,220**
Actuarial gains or losses on defined benefit pension plans	1,717	3,172
Non-current assets and disposal groups held for sale	-	-
Other valuation adjustments	-	-
Income tax relating to items that will not be reclassified	(515)	(952)
Items that may be reclassified to profit or loss	**(9,885)**	**(26,538)**
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	-	-
Available-for-sale financial assets	(24,470)	(37,912)
Valuation gains or losses taken to equity	(5,579)	(22,641)
Transferred to profit or loss	(9,088)	(15,271)
Other reclassifications	(9,803)	-
Non-current assets and disposal groups held for sale (Note 10)	10,349	-
Valuation gains or losses taken to equity	546	-
Transferred to profit or loss	-	-
Other reclassifications	9,803	-
Income tax relating to items that may be reclassified to profit or loss	**4,236**	**11,374**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**67,664**	**52,844**

Statements of changes in equity (Thousands of Euros):

2016:

	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 2016	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**96,522**	**-**	**77,162**	**-**	**69,501**	**970,935**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2016	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**96,522**	**-**	**77,162**	**-**	**69,501**	**970,935**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**76,347**	**-**	**(8,683)**	**67,664**
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**-**	**57,871**	**-**	**(77,162)**	**-**	**-**	**(19,291)**
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)	-	-	-	-	-	-	-	-	(19,291)	-	-	(19,291)
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	-	-	-	-	-	-	57,871	-	(57,871)	-	-	-
Transfers among components of equity	-	-	-	-	-	-	-	-	-	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2016	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**154,393**	**-**	**76,347**	**-**	**60,818**	**1,019,308**

2015 (*):

	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 2015 (*)	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**55,659**	**-**	**54,485**	**-**	**93,819**	**931,713**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance at 1 January 2015	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**55,659**	**-**	**54,485**	**-**	**93,819**	**931,713**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**77,162**	**-**	**(24,318)**	**52,844**
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**-**	**40,863**	**-**	**(54,485)**	**-**	**-**	**(13,622)**
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)	-	-	-	-	-	-	-	-	(13,622)	-	-	(13,622)
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	-	-	-	-	-	-	40,863	-	(40,863)	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2015 (*)	**112,257**	**615,493**	**-**	**-**	**-**	**-**	**96,522**	**-**	**77,162**	**-**	**69,501**	**970,935**

Statements of Cash Flows (Thousands of Euros):

	Proceeds / (Payments)	
	2016	2015 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES	**1,999,158**	**120,143**
Profit for the year	**76,347**	**77,162**
Adjustments made to obtain the cash flows from operating activities	**202,826**	**74,468**
Depreciation and amortisation charge	55,588	49,688
Other adjustments	147,238	24,780
Net (increase)/decrease in operating assets	**3,710,001**	**(1,066,611)**
Financial assets held for trading	502,304	268,236
Financial assets designated at fair value through profit or loss	1,661,621	912,179
Available-for-sale financial assets	847,721	(1,715,409)
Loans and receivables	682,224	(507,227)
Other operating assets	16,131	(24,390)
Net increase/(decrease) in operating liabilities	**(1,965,883)**	**1,065,276**
Financial liabilities held for trading	(493,334)	5,719
Financial liabilities designated at fair value through profit or loss	(924,006)	(255,734)
Financial liabilities at amortised cost	(526,901)	1,315,004
Other operating liabilities	(21,642)	287
Income tax recovered/(paid)	**(24,133)**	**(30,152)**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**(4,132)**	**(88,961)**
Payments:	**(30,647)**	**(94,422)**
Tangible assets	(2,629)	(2,928)
Intangible assets	(28,018)	(91,494)
Investments in subsidiaries, joint ventures and associates	-	-
Other business units	-	-
Non-current assets and liabilities classified as held for sale	-	-
Held-to-maturity investments	-	-
Other payments related to investing activities	-	-
Proceeds:	**26,515**	**5,461**
Tangible assets	-	-
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associates	-	5,461
Other business units	-	-
Non-current assets and liabilities classified as held for sale	26,515	-
Held-to-maturity investments	-	-
Other proceeds related to investing activities	-	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(19,291)**	**(13,622)**
Payments:	**(19,291)**	**(13,622)**
Dividends	(19,291)	(13,622)
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)	**1,975,735**	**17,560**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**213,947**	**196,387**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 5)	**2,189,682**	**213,947**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 5)		
Cash	101,710	53,495
Cash balances at central banks	1,877,695	8,065
Other demand deposits	210,277	152,387
Less: Bank overdrafts refundable on demand	-	-

4. Distribution of the Group's profit

The distribution of the Bank's net profit for 2016 proposed by the Board of Directors and approved by the General Meeting of Shareholders on 22 March 2017, is as follows (balances for the year 2015 are presented solely for comparison purposes):

	Thousands of Euros	
	2016	2015
Legal Reserve	579	7,716
Voluntary Reserve	56,681	50,155
Dividends	19,087	19,291
Net profit for the year	76,347	77,162

5. Information by business segments

Cecabank, S.A.'s wholesale business, which is carried on in Spain, represents substantially all the Group's activities, of which the retail business accounts for less than 1%.

Below is a breakdown of the main ordinary revenues for the 2016 and 2015 financial years of customers external to the Group broken down by geographical areas in which they have their origin:

2016:

	Thousands of Euros			
	Spain	Rest of Europe	Rest of the World	Total
Interest income (Note 28)	111,134	-	-	111,134
Commission income (Note 31)	134,269	-	292	134,561
Gains/losses on financial assets and liabilities (net) (Note 33)	(27,483)	-	-	(27,483)
Other operating income (Note 34)	43,602	6,566	-	50,168

2015:

	Thousands of Euros			
	Spain	Rest of Europe	Rest of the World	Total
Interest income (Note 28)	67,474	-	-	67,474
Commission income (Note 31)	128,130	-	322	128,452
Gains/losses on financial assets and liabilities (net) (Note 33)	20,375	-	-	20,375
Other operating income (Note 34)	46,828	7,021	95	53,944

Note 26 contains information on geographical distribution, by counterparty, of the Group's main activities.

At 31 December 2016 and 2015 and in those years, the Group did not have any single customer which individually accounted for 10% or more of its revenue.

6. Remuneration of directors and senior executives

6.1. Remuneration of directors

The members of the Board of Directors of the Bank receive, on account of their attendance at the meetings of the Council and, as the case may be, those of their support committees, the breakdown of which for the 2016 and 2015 financial years is shown in the following table:

	Thousands of Euros	
	2016	2015
Aguirre Loaso, José Luis	23	26
Azuaga Moreno, Manuel	33	22
Cánovas Páez, Joaquín	15	14
Carbó Valverde, Santiago	29	19
García Lurueña, Francisco Javier	23	21
Gómez de Miguel, José Manuel	40	29
Massanel Lavilla, Antonio	15	15
Méndez Álvarez-Cedrón, José María	15	15
Ruano Mochales, Jesús	18	22
Salaverría Monfort, Julia	40	21
Sarro Álvarez, María del Mar	39	30
	290	234

Fees in connection with the abovementioned concepts regarding the 2016 financial period , which are related to the participation in Cecabank S.A's management board of an executive of Bankia S.A, and directly debited to this entity, amounted to EUR 22 thousand (2015: EUR 23 thousand).

Note 40 details Cecabank's other balances with its directors and entities or individuals related to them.

The above allowances have been fully paid by Cecabank, and the Directors of the Bank have not received any remuneration from any other Group company.

6.2. 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 2016, (10 members at 31 December 2015).

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 3,665 thousand in 2016, of which EUR 3,364 thousand related to short-term remuneration for 2016 and EUR 301 thousand related to post-employment benefits (EUR 3,814 thousand in 2015, of which EUR 3,494 thousand related to short-term remuneration and EUR 320 thousand to post-employment benefits).

At 31 December 2016, the vested pension rights of the senior executives and Board members in their capacity as Bank executives amounted to EUR 2,695 thousand (31 December 2015: EUR 2,602 thousand).

With regard to former members of the Entity's Board of Directors and senior executives (three people at 31 December 2016 and at 31 December 2015 four people), in 2016 they received EUR 388 thousand in pre-retirement benefits (2015: EUR 976 thousand). At 31 December 2016, these persons' vested rights amounted to EUR 980 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).

In addition, at 31 December 2016, the Bank has a commitment to a previous member of the Top Management, amounting to 1,990 thousand euros (see Note 2.11.4). At 31 December 2016 and 2015, there were no other pension commitments, similar obligations or other long-term commitments assumed by the Bank with current or former members of the Board of Directors or Top Management.

6.3. 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.

In 2016 the Bank's directors, as defined in the Spanish Limited Liability Companies Law, did not notify the Board of Directors of any direct or indirect conflict of interest that they (or any persons related to them) might have with respect to the Bank.

In 2015 conflicts of interest arose on four occasions, the detail being as follows: on two occasions the purchase and sale and marketing of certain properties was being discussed, and on the second of these occasions one director left the room; on one occasion the commercial contract of a member of the Board was being discussed, and the director left the room; and on another occasion a financial transaction was being approved.

7. 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 consolidated balances sheet at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Cash	101,710	53,495
Cash balances at central banks (Note 1.9) (*)	1,877,695	8,065
Other demand deposits	210,743	154,387
	2,190,148	216,165

(*)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 2016 and 2015. 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 2016 and 2015 represents the maximum exposure to credit risk assumed by the Bank in relation to these instruments.

At 31 December 2016 and 2015, there were no assets with uncollected past-due amounts or impaired classified under "Cash, Cash Balances at Central Banks and other demand deposits"".

8. Financial instruments through profit or loss

8.1. Financial assets and liabilities held for trading - debtor and creditor portfolio

8.1.1. Financial assets and liabilities held for trading - Breakdown

Following is a detail of the balances of "Financial Assets/Liabilities Held for Trading" in the consolidated balances sheets at 31 December 2016 and 2015:

	Thousands of Euros			
	Asset Balances		Liability Balances	
	2016	2015	2016	2015
Debt securities	606,452	1,135,252	-	-
Equity instruments	151,360	63,160	-	-
Trading derivatives-				
Derivatives traded in organised markets	3,923	1,657	3,680	1,214
OTC derivatives	1,246,830	1,360,654	1,342,404	1,325,900
Short positions	-	-	433,716	946,021
	2,008,565	2,560,723	1,779,800	2,273,135

Note 22 discloses information on the credit risk assumed by the Group 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.

8.1.2. 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 Group and of their notional amount (on the basis of which the future payments and collections on these derivatives are calculated) at 31 December 2016 and 2015:

	Thousands of Euros					
	2016			2015		
	Fair Value		Notional Amount	Fair Value		Notional Amount
	Asset Balances	Liability Balances		Asset Balances	Liability Balances	
Interest rate risk	1,197,431	1,299,699	52,793,447	1,322,323	1,303,175	68,233,057
Foreign currency risk	49,399	42,629	2,080,265	38,189	22,628	2,037,352
Share price risk	3,923	3,756	400,249	1,799	1,311	295,289
	1,250,753	1,346,084	55,273,961	1,362,311	1,327,114	70,565,698

The notional amount of the contracts entered into does not reflect the actual risk assumed by the Group 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.

8.1.3. Financial liabilities held for trading - Short positions

The detail, by type of transaction, of the balance of this item in the consolidated balances sheet at 31 December 2016 and 2015:

	Thousands of Euros	
	2016	2015
Classification:		
For securities lending-		
Equity instruments	1,630	-
Overdrafts on disposals-		
Debt securities	432,086	946,021
	433,716	946,021

"Short Positions - Short Sales – Debt Instruments" in the foregoing table includes the fair value of the Group's debt instruments purchased under reverse 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 Group before maturity of the reverse repurchase agreement in which they are used as collateral, in order for the Group to return them at the maturity date.

8.2. Other financial instruments at fair value through profit or loss

8.2.1. Other financial assets at fair value through profit or loss

This heading shares listed in organised markets reverse repurchase agreements arranged by the Group which are managed jointly with repurchase agreements relating to financial assets classified in "Other Financial Liabilities at Fair Value Through Profit or Loss" and with interest rate derivatives and financial instruments classified as held for trading and other available-for-sale financial assets.

The detail, by nature, of the financial assets included in "Other Financial Assets at Fair Value Through Profit or Loss" in the consolidated balances sheet at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Equity instruments-		
Shares quoted in organised markets	-	58,116
	-	58,116
Loans and advances to credit institutions-		
Reverse repurchase agreements	898,690	2,698,146
Valuation adjustments-		
Accrued interest	(132)	69
Valuation gains or losses	21	178
	(111)	247
	898,579	2,698,393
Loans and advances to customers-		
Reverse repurchase agreements	167,898	29,958
Valuation adjustments-		
Accrued interest	(42)	-
Valuation gains or losses	1	(4)
	(41)	(4)
	167,857	29,954
	1,066,436	2,786,463

Note 22 includes information on the Group's exposure to credit risk at 31 December 2016 and 2015 associated with these financial instruments other than equity instruments .

Note 21 discloses information on the fair value of these financial instruments at 31 December 2016 and 2015. 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 Group at 31 December 2016 and 2015, 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 2016 and 2015.

In view of the characteristics of the transactions included in this category (mainly reverse repurchase agreements), the counterparties and collateral provided, it is estimated that substantially all the changes in the fair value of these financial instruments in 2016 and 2015 recognized in the income statement are attributable to market risk and, more specifically, to interest rate risk. The fair value of the debt instruments included in this category was estimated by calculating the present value of their cash flows.

8.2.2. Other financial liabilities at fair value through profit or loss

This heading includes repurchase agreements arranged by the Group which are managed jointly with reverse repurchase agreements relating to financial assets classified in "Other Financial Assets at Fair Value Through Profit or Loss" and with interest rate derivatives and financial instruments.

The detail, by nature, of the financial liabilities included in "Other Financial Liabilities at Fair Value Through Profit or Loss" in the consolidated balances sheet at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Deposits from credit institutions-		
Repurchase agreements with credit institutions	38,516	675,911
Valuation adjustments-		
Accrued interest	(6)	-
Valuation gains or losses	-	(26)
	(6)	(26)
	38,510	675,885
Customer deposits-		
Repurchase agreements with central counterparties	-	177,594
Repurchase agreements with other sectors resident in Spain	147,419	256,418
Valuation adjustments-		
Accrued interest	(22)	-
Valuation gains or losses	(5)	11
	(27)	11
	147,392	434,023
	185,902	1,109,908

In view of the characteristics of these financial liabilities (sales of assets under non-optional repurchase agreements arranged by the Group), the significant changes in the fair value of these financial instruments in 2016 and 2015 accumulated at 31 December are attributable to market risk (mainly interest rate risk) rather than credit risk. The fair value of these assets has been estimated using the current value of their cash flows.

The amounts shown in the above table, net of their related valuation adjustments for "Revaluation Gains", represent the amortized cost of these liabilities at 31 December 2016 and 2015, which does not differ significantly from the amount that would be payable by the Group if they matured at that date.

Note 21 discloses information on the fair value of the financial liabilities included in this category at 31 December 2016 and 2015. Note 24 provides information on the liquidity risk associated with these financial liabilities.

Note 23 shows certain information on the market risk associated with these financial liabilities and Note 25 contains information on interest rate risk.

9. Available-for-sale financial assets

Following is a detail of the balances of “Available-for-Sale Financial Assets” in the consolidated balances sheet at 31 December 2016 and 2015:

	Thousands of Euros	
	2016	2015
Debt securities-		
Spanish public sector securities	2,112,610	3,121,290
Of which:		
Treasury bills	855,658	1,365,994
Government debt securities	1,256,952	1,755,296
Securities of other public agencies	651,458	493,110
Other securities	410,510	407,017
	3,174,578	4,021,417
Valuation adjustments-		
Accrued interest	21,853	29,678
Valuation gains or losses and other	58,955	67,213
Impairment losses	(1,404)	(5,376)
	79,404	91,515
	3,253,982	4,112,932
Equity instruments-		
Shares quoted in organised markets	67,283	67,649
Shares not quoted in organised markets	34,376	46,032
	101,659	113,681
Valuation adjustments-		
Valuation gains or losses and other	6,966	23,029
Impairment losses	(41,106)	(47,630)
	(34,140)	(24,601)
	67,519	89,080
	3,321,501	4,202,012

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 Group 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 2016 and 2015. Note 26 includes information on the concentration risk associated to these financial assets.

10. Loans and receivables

Following is a detail of the financial assets included in "Loans and Receivables" in the consolidated balances sheet at 31 December 2016 and 2015:

	Thousands of Euros	
	2016	2015
Debt securities-		
Debt securities issued by Spanish public sector	1,600	3,200
Debt securities issued by entities not resident in Spain	-	43,598
Non-performing assets	54,452	46,088
	56,052	92,886
Valuation adjustments-		
Impairment losses	(34,231)	(51,874)
Accrued interest	53	212
	(34,178)	(51,662)
	21,874	41,224
Loans and advances to credit institutions-		
Time deposits	56,608	36,356
Other accounts	493,073	485,736
Reverse repurchase agreements	6,642	472,084
Other financial assets	148,175	82,896
Non-performing assets	146	149
	704,644	1,077,221
Valuation adjustments-		
Impairment losses	(149)	(165)
Accrued interest	(116)	(78)
	(265)	(243)
	704,379	1,076,978
Loans and advances to customers-		
Deposits for futures transactions and other security provided	418,119	499,075
Unsettled stock exchange transactions	-	20,052
Mortgage loans	45,174	47,218
Credits and loans with personal guarantee	32,499	203,443
Other assets	41	43
Non-performing assets	55,390	55,752
	551,223	825,583
Valuation adjustments-		
Impairment losses	(59,655)	(56,972)
Accrued interest	67	11
	(59,588)	(56,961)
	491,635	768,622
	1,217,888	1,886,824

Note 21 provides information on the fair value at 31 December 2016 and 2015 of the financial assets included in this category. Note 22 discloses certain relevant information on the credit risk relating to the financial assets included in this financial instrument category at 31 December 2016 and 2015.

Note 23 includes information on the market risk associated with these financial assets at 31 December 2016 and 2015. Note 24 contains information on the liquidity risk associated with the Group's financial instruments at 31 December 2016 and 2015, 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 associated with the financial assets included in this category at 31 December 2016 and 2015. Note 25 shows information on the exposure to interest rate risk.

11. Hedging derivatives

11.1 Fair value hedges

The Group 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.

The Group'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 Group uses OTC interest rate derivatives (basically swaps such as call money swaps).

The Group 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 Group 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			
	2016		2015	
	Asset balances	Liability balances	Asset balances	Liability balances
Hedged instrument Available-for-sale assets	511	3,966	222	4,418
	511	3,966	222	4,418

Gains/losses on hedging instruments and hedged items are recognized under "Gains or losses from hedge accounting, 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 2016 and 2015. Note 22 includes certain information on the credit risk associated with these derivatives at 31 December 2016 and 2015.

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

The breakdown of the balance of “Non-current assets and disposal groups classified as held for sale” in the consolidated balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Real properties	2,716	18,487
Equity instruments	15,394	-
	18,110	18,487

The changes in 2016 and 2015 in the items included in this heading in the consolidated balances sheet, and the related impairment losses, were as follows:

	Thousands of Euros	
	2016	2015
Cost:		
Balances at 1 January	35,509	35,526
Additions	-	-
Disposals	(30,541)	(17)
Transfers	24,429	-
Balances at 31 December	29,397	35,509
Impairment losses:		
Balances at 1 January	(17,022)	(17,022)
Additions	-	-
Disposals	14,920	-
Transfers	(9,185)	-
Balances at 31 December	(11,287)	(17,022)
Net Balances at 31 December	18,110	18,487

The Bank holds 14.44% of the share capital of Ahorro Corporación, S.A. As a result of the position of this investee, taking into consideration how this investment is expected to be recovered, in 2016 the Bank reclassified these shares, with a carrying amount of EUR 15,394 thousand, from “Available-for-Sale Financial Assets – Equity Instruments” to “Non-Current Assets and Disposal Groups Classified as Held for Sale” in the balance sheet. At 31 December 2016, these shares had an associated unrealised gain, net of the tax effect, of EUR 7,244 thousand recognised under “Accumulated Other Comprehensive Income – Items that May Be Reclassified to Profit or Loss – Non-Current Assets and Disposal Groups Classified as Held for Sale” in the accompanying balance sheet. At the date of preparation of these financial statements these shares had not been disposed of. The remainder of the balance of “Transfers” in the above table relates to computer hardware transferred to “Tangible Assets - Property, Plant and Equipment For Own Use” with a net carrying amount of EUR 150 thousand.

On 19 December and 14 March 2016, the Bank sold two properties in Avenida de Bruselas and Calle de Padre Damián, with carrying amounts at the time of sale of EUR 15,537 thousand and EUR 84 thousand, respectively, giving rise to gains of EUR 10,258 thousand and EUR 636 thousand, respectively, which 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 accompanying income statement for 2016.

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 it has reasonable expectations of achieving this; accordingly, since the other requirements in this connection established in Bank of Spain Circular 4/2004 have been met, the assets continue to be classified and measured as non-current assets held for sale.

13. Tangible assets

The changes in 2016 and 2015 in "Tangible Assets" in the consolidated balances sheet 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 2015	71,036	27,277	10,040	1,333	109,686
Additions	900	398	1,636	-	2,934
Disposals	-	(69)	(680)	-	(749)
Transfers	-	615	307	-	922
Balance at 31 December 2015	71,936	28,221	11,303	1,333	112,793
Additions	-	1,156	1,465	13	2,634
Disposals	-	(1,622)	(1,327)	-	(2,949)
Transfers	(900)	290	-	900	290
Balance at 31 December 2016	71,036	28,045	11,441	2,246	112,768
Accumulated depreciation:					
Balance at 1 January 2015	(23,979)	(22,913)	(9,253)	(309)	(56,454)
Charge for the year (Note 39)	(1,074)	(1,191)	(496)	(36)	(2,797)
Disposals	-	64	680	-	744
Transfers	-	(610)	(305)	-	(915)
Balance at 31 December 2015	(25,053)	(24,650)	(9,374)	(345)	(59,422)
Charge for the year (Note 39)	(1,008)	(1,016)	(858)	(59)	(2,941)
Disposals	-	1,619	1,318	-	2,937
Transfers	7	(140)	-	(7)	(140)
Balance at 31 December 2016	(26,054)	(24,187)	(8,914)	(411)	(59,566)
Tangible assets, net:					
Net balance at 31 December 2015	46,883	3,571	1,929	988	53,371
Net balance at 31 December 2016	44,982	3,858	2,527	1,835	53,202

At 31 December 2016 and 2015, property, plant and equipment for own use totaling (gross) approximately EUR 27,445 and 29,048 thousand had been depreciated in full.

Either at 31 December 2016 or at 31 December 2015, the tangible assets owned by the Group were not impaired or there were no changes in this connection in those years.

In 2016 the rental income earned from investment property owned by the Group amounted to EUR 1,214 thousand (2015: EUR 1,200 thousand) (see Note 34).

In 2016, the losses on disposals arising under "Property, Plant and Equipment – For Own Use" totalled EUR 12 thousand, recognised under "Gains or Losses on Derecognition of Non-Financial Assets and Investments, Net" in the income statement for 2016.

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14. Intangible assets

14.1. Other intangible assets

The balance of this heading includes basically rights arising from the acquisition of certain depository businesses relating to collective investment undertakings and pension funds, as well as, to a lesser extent, computer software developed by the Group, which is amortised as indicated in Note 2.14 above. The detail of "Other Intangible Assets" in the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Intangible assets with finite useful life	282,057	253,970
Less:		
Accumulated amortization	(177,821)	(125,140)
Impairment losses	(44,810)	(44,810)
Total net	59,426	84,020

At 31 December 2016 the balance of fully amortized intangible assets (computer applications) and in use was 7,187 thousands of euros (5,305 thousands of euros at 2015).

The changes in 2016 and 2015 in the consolidated balance sheet were as follows:

	Thousands of Euros
Cost:	
Balance at 1 January 2015	160,279
Additions	93,691
Disposals	-
Balance at 31 December 2015	253,970
Additions	28,087
Disposals	-
Balance at 31 December 2016	282,057
Accumulated amortization:	
Balance at 1 January 2015	(76,205)
Charge for the year (Note 39)	(46,912)
Disposals	2
Transfers and other movements	(2,025)
Balance at 31 December 2015	(125,140)
Charge for the year (Note 39)	(52,681)
Disposals	-
Transfers and other movements	-
Balance at 31 December 2016	(177,821)
Value adjustments for impairment at 31 December 2015	(44,810)
Value adjustments for impairment at 31 December 2016	(44,810)
Intangible assets, net:	
Net balance at 31 December 2015	84,020
Net balance at 31 December 2016	59,426

15. Other assets and liabilities

15.1. Other Assets

The breakdown of the balance of “Other Assets” and “Other Liabilities” in the consolidated balances sheet at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Supplies	-	6
	-	6
Other assets-		
Prepayments-		
Fees and commissions receivable	11,495	12,147
Non-accrued expenses	73	100
Other prepayments	990	880
Other assets-		
Transactions in transit	11,431	11,954
Nets Assets Post-Employment plans (Notes 2.11.2 & 35)	5,171	3,384
Other	4,897	23,241
	34,057	51,706
	34,057	51,712

“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 - Other assets - Transactions in Transit” mainly include temporary balances which relate basically to securities underwriting transactions and other unsettled OTC transactions within the Securities Clearing and Settlement Service.

15.2. Other liabilities

The composition of the balance of this consolidated balances sheet at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Accrued expenses and deferred income-		
Fees and commissions payable	1,214	2,644
Accrued expenses	48,941	57,306
Accrued revenues	405	942
Other liabilities-		
Transactions in transit	80,316	51,488
Other	7,239	754
	138,115	113,134

“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 in the Securities Clearing and Settlement System.

The balance of the heading "Accruals - Accrued expenses " of "Other liabilities" in the foregoing table includes , among other items, as of December 31, 2016, balances amounting to 24,993 thousand euros (EUR 28,180 thousand at 31 December 2015) that originate in variable remuneration paid by the outstanding staff.

16. Financial liabilities at amortised cost

16.1. Breakdown

The detail of the items composing this heading in the consolidated balances sheet at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Deposits-		
Deposits from credit institutions	959,259	1,181,770
Customer deposits	5,144,047	5,826,461
	6,103,306	7,008,231
Valuation adjustments	(169)	3,084
	6,103,137	7,011,315
Other financial liabilities	627,508	248,852
	6,730,645	7,260,167

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 Group's financial instruments.

16.2. Financial liabilities at amortised cost - Deposits from credit institutions

The breakdown, by geographical area of residence of the counterparty and type of instrument, of the balances of this item in the consolidated balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
By geographical location:		
Spain	637,268	833,069
Other EMU countries	118,765	145,764
Rest of the world	202,520	203,136
	958,553	1,181,969
By type of instrument:		
Demand deposits and other-		
Other accounts	898,809	1,053,875
Time deposits-		
Time deposits	56,813	117,646
Repurchase agreements	3,637	10,249
	959,259	1,181,770
Valuation adjustments	(706)	199
	958,553	1,181,969

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16.3. Financial liabilities at amortized 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 consolidated balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
By geographical location:		
Spain	5,137,267	5,507,444
Other EMU countries	6,067	320,064
Rest of the world	1,250	1,838
	5,144,584	5,829,346
By counterparty:		
Resident public sector	130,646	310,333
Non-resident public sector	380	560
Other resident sectors	4,999,444	4,944,124
Other non-resident sectors	6,937	31,358
Central counterparties	6,640	540,086
	5,144,047	5,826,461
Valuation adjustments	537	2,885
	5,144,584	5,829,346
By type of instrument:		
Current accounts	4,458,416	4,516,836
Other demand deposits	60,778	81,852
Fixed-term deposits	618,213	687,687
Repurchase agreements	6,640	540,086
	5,144,047	5,826,461
Valuation adjustments	537	2,885
	5,144,584	5,829,346

16.4. Financial liabilities at amortized cost - Other financial liabilities

The breakdown of the balance of this item in the consolidated balances sheet at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Payment obligations	22,825	16,236
Collateral received	182	150
Tax collection accounts	2,072	219
Special accounts	35,290	37,419
Other Items	567,139	194,828
	627,508	248,852

At 31 December 2016, "Other Items" in the foregoing table included, among other items, balances amounting to EUR 336,878 thousand (31 December 2015: EUR 155,736 thousand) arising from means of payment procedures that certain credit institutions carry out through the Group. 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 2016, 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 54,641 thousand euros.

17. Provisions

17.1. Provisions or reversal of provisions

The detail, according to the purpose of the net provisions recognized, of this item in the consolidated income statement for 2016 and 2015 are as follows:

	Thousands of Euros	
	Net Additions/ (Reversals)	
	2016	2015
Additions to/ (Reversal of) provisions for pensions and similar obligations (Notes 17.2 & 35)	(954)	22,043
Additions to/ (Reversal of) for commitments and guarantees granted (Note 17.2)	118	-
Additions to/ (Reversal of) for procedural issues and procedural tax litigation (Note 17.2)	13,953	-
Additions to/ (Reversal of) other provisions (Note 17.2)	(16,593)	10,767
	(3,476)	32,810

“Additions to/ (Reversal of) other provisions” contains, inter alia, the provision recognised to cover the employee pre-retirement process approved in December 2015, the balance of which amounted to EUR 24,202 thousand at 31 December 2015 (see Note 2.11.3.1).

17.2. Provisions - Provisions for contingent liabilities and commitments and other provisions

The changes in the balances of these items in the consolidated balance sheets at 31 December 2016 and 2015 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	Other provisions
Balances at 1 January 2015	84,498	16	6,499	105,255
Net addition/ (reversal) charged/ (credited) to income (Note 17.1)	22,043	-	-	10,767
Other net movements	(15,447)	-	(178)	(2,835)
Balances at 31 December 2015	91,094	16	6,321	113,187
Net addition/ (reversal) charged/ (credited) to income (Note 17.1)	(954)	118	13,953	(16,593)
Other net movements	(13,974)	-	(611)	(2,523)
Balances at 31 December 2016	76,166	134	19,663	94,071

The balance recognised under “Pending Legal Issues and Tax Litigation” includes, inter alia, the provisions recognised for potential contingencies arising from the tax audit in progress (see Note 20.1).

The balance of “Other Provisions” in the foregoing table includes the amounts allocated by the Bank to cover certain liabilities and contingencies arising from its business activities, relating mainly to the securities depository activity carried out by the Bank with certain guarantees provided to securitisation funds.

“Other Changes, Net” under “Other Long-Term Employee Benefits” in 2016 consists mainly of the benefits paid to participants in the defined benefit plans totalling EUR 14,273 thousand (2015: EUR 16,010 thousand) (see Note 35).

18. Other accumulated net income

18.1. Items that can be reclassified into income – Available-for-sale financial assets

This item in the consolidated balances sheet at 31 December 2016 and 2015 includes the amount, net accumulated of the related tax effect, of changes in the fair value of assets classified as available-for-sale assets since its acquisition (see Note 9) which, as stated in Note 2.2, should be recognized in the Group'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 consolidated statements of recognized income and expense show the changes in 2016 and 2015 in this item in the consolidated balances sheet at 31 December 2016 and 2015.

18.2. Items that can be reclassified into income – Non-Current Assets and Disposal groups Classified as Held for Sale

This heading in the consolidated balance sheet at 31 December 2016 includes the net cumulative amount, adjusted for the corresponding tax effect, of the change in fair value of the shares held in Ahorro Corporación, S.A., which in 2016 were reclassified to “Non-Current Assets and Disposal Groups Classified as Held for Sale” in the accompanying balance sheet (see Note 12). The statement of changes in equity includes the changes in the balances recognised under this heading in the consolidated balances sheets in 2016 and 2015.

18.3. Items that can not be reclassified into income – Actuarial gains and losses from defined benefit pension obligations

This heading in the consolidated balance sheets at 31 December 2016 and 2015 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 2016 and 2015 in this item in the consolidated balance sheets at 31 December 2016 and 2015.

19. Own funds

19.1. Capital

At 31 December 2016 and 2015, 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 2016 and 2015, 89% of the Bank's share capital was held by Confederación Española de Cajas de Ahorros. The remaining 11% is owned by other financial entities.

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

The Bank's shares are not listed on official stock markets. Except 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 of Shareholders for carrying out capital increases, or capital increases in progress. In 2016 and 2015 there were no increases in the number of shares issued by the Bank.

19.2. 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 2016 and 2015 amounted to 615,493 thousand euros which is formed by the effect of the capital investment described in Note 19.1 above and the recording in 2012 of the Segregation of Cecabank's equity mentioned above (see Note 1.1).

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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.

Group companies file their tax returns, in accordance with applicable tax rules

20.1. Years open for review by the tax authorities

Pursuant to current legislation, tax settlements cannot be deemed to be definitive until they have been reviewed by the tax authorities or until the related statute-of-limitations period has expired.

On 30 March 2016, the Spanish State Tax Agency notified the Bank of the commencement of a tax audit relating to the returns for the following taxes and periods filed by the Bank:

- Income tax relating to the tax periods between 2012 and 2013.
- VAT relating to the periods between November 2012 and December 2013.
- Withholdings and prepayments on salary income relating to the periods between November 2012 and December 2013.
- Non-resident income tax withholdings relating to the periods between November 2012 and December 2013.

As a result of this inspection, at 31 December 2016, the Bank's Directors have considered the constitution of a provision to cover the liabilities that may arise from this, which are recorded under "Provisions - Procedural matters and litigation for procedural taxes" of the attached Balance sheet (see Notes 17.1 and 17.2). At the date of preparation of these annual accounts, this action has not been completed.

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, except for the years under audit at the end of 2016 described above, 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.

In any event, in this regard it is important to take into consideration that, as a result of the spin-off conducted in 2012 described in Note 1.1, Cecabank, S.A. became the successor entity to the CECA and assumed, in accordance with Article 84 of the 27/2014 Law of 27 November on Spanish Corporation Tax, all tax rights and obligations in relation to the assets and rights transferred by the CECA, and the obligation of satisfying the requirements arising from the tax incentives held by the transferor insofar as they refer to the transferred assets and rights.

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 consolidated income statements for 2016 and 2015 is as follows:

	Thousands of Euros Expenses/(Revenues)	
	2016	2015
Income tax expense for the year	32,720	28,884
Prior years' and other adjustments	(718)	(586)
	32,202	28,298

20.3. Reconciliation of accounting profit to taxable profit

The reconciliation of the income tax expenses recognized for 2016 and 2015 to the accounting profit before tax multiplied by the tax rate applicable to the Bank, and the income tax charge recognized at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Accounting profit before tax	108,401	105,841
Tax rate	30%	30%
	32,520	31,752
Permanent differences:		
Increases	1,935	36
Decreases	(1,594)	(2,736)
Total	32,861	29,052
(Tax credits)/(Tax relief)	(142)	(168)
Income tax expense for the year	32,720	28,884
Temporary differences:		
Increases	24,937	21,620
Decreases	(26,984)	(18,365)
Tax with holdings and prepayments	(19,819)	(27,804)
Income tax charge for the year	10,854	4,335

The current income tax charge shown in the above table is recognized under “Tax Liabilities - Current Tax Liabilities” in the balance sheets as at 31 December 2016 and 2015. At 31 December 2016, it also includes the payment obligation in relation to deferred tax assets arising from the tax audit commenced on 30 March 2016 (see Notes 21.1 and 21.5).

The permanent differences (decreases) shown in the above table relating to 2016 are a result of the 10% reduction in taxable profit due to the increase in shareholders' equity which meet certain requirements regulated in Law 27/2014 of November 27, Corporate Income Tax.

20.4. Tax recognized in equity

In addition to the income tax recognized in the income statement, in 2016 and 2015 the Group recognized the following deferred amounts of income tax in equity during those periods:

	Thousands of Euros	
	Increases/(Decreases) in Equity	
	2016	2015
Tax effect of actuarial gains and losses on defined benefit pension plans	(515)	(952)
Tax effect of unrealised gains and losses on available-for-sale securities	7,341	11,374
Tax effect of unrealised gains and losses on non-current assets and disposal groups classified as held for sale (see Note 12)	(3,105)	-
	3,721	10,422

20.5. Deferred taxes

Pursuant to the tax legislation in force, in 2016 and 2015 certain temporary differences arose that must be taken into account when quantifying the related income tax expense. The deferred taxes recognized in the consolidated balance sheets at 31 December 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
Deferred tax assets arising from:		
Additions and contributions to pension provisions and funds and other long-term obligations to employees	14,032	17,726
Additions to provisions	35,529	38,979
Impairment losses	72,467	69,214
Available-for-sale debt instruments	-	396
Other	2,336	1,322
	124,364	127,637

EUR 33,650 thousand of the total deferred tax assets recognized at 31 December 2016 (31 December 2015: EUR 46,623 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	
	2016	2015
Deferred tax liabilities arising from:		
Revaluation of property	8,058	12,180
Available-for-sale debt instruments	23,314	26,642
Additions and contributions to pension provisions and funds and to provisions for other long-term obligations to employees	1,551	1,016
	32,923	39,838

20.6. 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.

20.7 Revaluation of assets

The Group 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 Group's financial instruments at 31 December 2016 and 2015 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, without making any change to these assets.

- 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 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 organised, transparent and deep markets: fair value is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

  - 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. Specifically:

    - Interest rate derivatives: fair value was determined, for non-option financial instruments, mainly swaps, by discounting future cash flows using the implied money market yield curves and the swap curve and for interest rate options, by using generally accepted valuation techniques based on the Black-Scholes option pricing model and implied volatility matrices.

    - Equity or stock market index derivatives arranged to hedge the risk of structured customer deposits containing an embedded derivative, and non-option currency derivatives: fair value was obtained by discounting estimated cash flows based on the forward curves of the respective derivatives, quoted in the market and, for the options, by using generally accepted techniques based on the Black-Scholes option pricing model, which make it possible, using a closed formula and only market inputs, to value options on these derivatives.

- 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 was determined in the same way as the value of loan and receivable instruments.

- 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 using, inter alia:

- Discounted cash flows (free operating cash flows or dividends), discounted to present value at a discount rate calculated using commonly accepted methodologies.

- Multiples of comparable listed companies (EV/EBITDA, PER, Price/Book Value, Price/Premiums), adjusted, as appropriate, to the company valued.

- Adjusted Net Asset Value (NAV): the result of aggregating shareholders' equity per books and gains, calculated as the difference between the market value of the assets and their carrying amount. For venture capital companies, the NAV was calculated by the managers and was generally estimated taking into account the standards of the European Private Equity and Venture Capital Association (EVCA) and the provisions of Circular 5/2000, of 19 September, of the Spanish National Securities Market Commission.

- Loans and receivables – loans and advances to customers:

  - The Group 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 amortised cost:

  - The Group 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 Black, Libor Market and Hull-White models for interest rates, the Black&Scholes model for equities and foreign currency, and the Jarrow-Turnbull and LHP models for credit products; the most common directly observable data are the interest rate, exchange rate and certain implied volatilities.

The fair value of the Group’s financial instruments at 31 December 2016 and 2015, broken down as indicated above, is as follows:

Financial assets – fair value at 31 December 2016-

	Thousands of Euros											
	Cash, cash balances at central banks and other demand deposits (Note 7)		Financial assets held for trading (Note 8.1)		Other financial assets designated at fair value through profit or loss (Note 8.2)		Available-for-sale financial assets (Note 9) (*)		Loans and receivables (Note 10)		Derivatives – hedge accounting (Note 11)	
	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 securities	-	-	556,559	556,559	-	-	2,783,065	2,783,065	-	-	-	-
Equity instruments	-	-	151,360	151,360	-	-	51,177	51,177	-	-	-	-
Derivatives	-	-	3,923	3,923	-	-	-	-	-	-	-	-
	-	-	711,842	711,842	-	-	2,834,242	2,834,242	-	-	-	-
Level 2:												
Cash, cash balances at central banks and other demand deposits	2,190,148	2,190,148	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	-	-	-	-	898,579	898,579	-	-	704,379	704,379	-	-
Loans and advances to customers-	-	-	-	-	167,857	167,857	-	-	491,635	491,635	-	-
Debt securities	-	-	49,893	49,893	-	-	470,917	470,917	21,874	21,874	-	-
Equity instruments	-	-	-	-	-	-	16,003	16,003	-	-	-	-
Derivatives held for trading	-	-	1,246,830	1,246,830	-	-	-	-	-	-	-	-
Derivatives – hedge accounting	-	-	-	-	-	-	-	-	-	-	511	511
	2,190,148	2,190,148	1,296,723	1,296,723	1,066,436	1,066,436	486,920	486,920	1,217,888	1,217,888	511	511
Level 3:												
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
	2,190,148	2,190,148	2,008,565	2,008,565	1,066,436	1,066,436	3,321,162	3,321,162	1,217,888	1,217,888	511	511

(*)Those equity instruments that the Group has valued at cost amounting to EUR 339 thousand are not included.

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Financial assets – fair value at 31 December 2015-

	Thousands of Euros											
	Cash, cash balances at central banks and other demand deposits (Note 7)		Financial assets held for trading (Note 8.1)		Other financial assets designated at fair value through profit or loss (Note 8.2)		Available-for-sale financial assets (Note 9) (*)		Loans and receivables (Note 10)		Derivatives – hedge accounting (Note 11)	
	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 securities	-	-	1,108,194	1,108,194	-	-	3,913,448	3,913,448	-	-	-	-
Equity instruments	-	-	63,160	63,160	58,116	58,116	54,336	54,336	-	-	-	-
Derivatives	-	-	1,657	1,657	-	-	-	-	-	-	-	-
	-	-	1,173,011	1,173,011	58,116	58,116	3,967,784	3,967,784	-	-	-	-
Level 2:												
Cash, cash balances at central banks and other demand deposits	216,165	216,165	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	-	-	-	-	2,698,393	2,698,393	-	-	1,076,978	1,076,978	-	-
Loans and advances to customers	-	-	-	-	29,954	29,954	-	-	768,622	768,622	-	-
Debt securities	-	-	27,058	27,058	-	-	199,484	199,484	41,224	41,224	-	-
Equity instruments	-	-	-	-	-	-	34,318	34,318	-	-	-	-
Derivatives held for trading	-	-	1,360,654	1,360,654	-	-	-	-	-	-	-	-
Derivatives – hedge accounting	-	-	-	-	-	-	-	-	-	-	222	222
	216,165	216,165	1,387,712	1,387,712	2,728,347	2,728,347	233,802	233,802	1,886,824	1,886,824	222	222
Level 3:												
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
	216,165	216,165	2,560,723	2,560,723	2,786,463	2,786,463	4,201,586	4,201,586	1,886,824	1,886,824	222	222

(*)Those equity instruments that the Group has valued at cost amounting to EUR 426 thousand are not included.

Financial liabilities – fair value at 31 December 2016-

	Thousand of Euros							
	Financial Liabilities Held for Trading (Note 8.1)		Financial Liabilities at Fair Value Through Profit or Loss (Note 8.2)		Financial Liabilities at Amortised Cost (Note 16)		Derivatives – hedge accounting (Note 11)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1:								
Trading derivatives	3,680	3,680	-	-	-	-	-	-
Short positions	433,716	433,716	-	-	-	-	-	-
	437,396	437,396	-	-	-	-	-	-
Level 2:								
Deposits from central banks	-	-	-	-	-	-	-	-
Deposits from credit institutions	-	-	38,510	38,510	958,553	958,553	-	-
Customer deposits	-	-	147,392	147,392	5,144,584	5,144,584	-	-
Trading derivatives	1,342,404	1,342,404	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	627,508	627,508	-	-
Hedging derivatives	-	-	-	-	-	-	3,966	3,966
	1,342,404	1,342,404	185,902	185,902	6,730,645	6,730,645	3,966	3,966
Level 3:								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total	1,779,800	1,779,800	185,902	185,902	6,730,645	6,730,645	3,966	3,966

Financial liabilities – fair value at 31 December 2015-

	Thousands of Euros							
	Financial Liabilities Held for Trading (Note 8.1)		Other Financial Liabilities at Fair Value Through Profit or Loss (Note 8.2)		Financial Liabilities at Amortised Cost (Note 16)		Derivatives – hedge accounting (Note 11)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1:								
Trading derivatives	1,214	1,214	-	-	-	-	-	-
Short positions	946,021	946,021	-	-	-	-	-	-
	947,235	947,235	-	-	-	-	-	-
Level 2:								
Deposits from central banks	-	-	-	-	-	-	-	-
Deposits from credit institutions	-	-	675,885	675,885	1,181,969	1,181,969	-	-
Customer deposits	-	-	434,023	434,023	5,829,346	5,829,346	-	-
Trading derivatives	1,325,900	1,325,900	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	248,852	248,852	-	-
Hedging derivatives	-	-	-	-	-	-	4,418	4,418
	1,325,900	1,325,900	1,109,908	1,109,908	7,260,167	7,260,167	4,418	4,418
Level 3:								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total	2,273,135	2,273,135	1,109,908	1,109,908	7,260,167	7,260,167	4,418	4,418

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 Group'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 2016 and 2015, there were no material transfers between the various hierarchy levels, or significant changes in the measurement of unquoted equity instruments included in the available-for-sale financial assets portfolio.

21.2. Fair value of tangible assets

The only tangible assets owned by the Group whose fair value differs significantly from their carrying amount are the properties owned by it. At 31 December 2016, the carrying amount of these properties amounted to EUR 46,817 thousand (31 December 2015: EUR 47,871 thousand) and their estimated fair value at that date was EUR 50,469 thousand at 31 December 2016 and 2015.

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

Credit risk analysis

At Cecabank Group, 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.

At 31 December 2016, no position exceeded the large exposure threshold. At 31 December 2015, two of the Bank's positions exceeded the large exposure threshold.

At 31 December 2016, with regard to distribution by country, the largest exposure was located in Spain (78.6%), followed by the other European Union countries (20.5%) rising the exposure in the other countries of the world to 0.9%. At 31 December 2015, the distribution by country was 81.4%, 17.6%, and 1.0% respectively.

In Note 26 information on the risk of geographical concentration of the Bank as of December 31, 2016 and 2015 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 97% of the total risk exposure (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 Group at 31 December 2016 and 2015 by class and category of financial instrument, without deducting the collateral or other guarantees received:

31 December 2016:

	Thousands of Euros						
	Assets						
	Financial assets held for trading (Note 8.1) (1)	Financial assets designated at fair value through profit or loss (Note 8.2.1)	Available-for-sale financial assets (Note 9)	Loans and receivables (Note 10)	Derivatives – hedge accounting (Note 11)	Off-balance-sheet exposures	Total
1. Loans and receivables-							
1.1 Loans and credits to credit institutions	-	898,690	-	704,644	-	-	1,603,334
- Reverse repurchase agreements	-	898,690	-	6,642	-	-	905,332
- Time deposits	-	-	-	56,608	-	-	56,608
- Deposits provided as guarantee for securities lending transactions	-	-	-	-	-	-	-
- Non-performing assets	-	-	-	146	-	-	146
- Other accounts and other	-	-	-	641,248	-	-	641,248
1.2 Debt securities	606,452	-	3,174,578	56,052	-	-	3,837,082
- Government debt securities	557,163	-	1,256,952	1,600	-	-	1,815,715
- Treasury bills	10,002	-	855,658	-	-	-	865,660
- Other public agencies	18,595	-	101,109	-	-	-	119,704
- Non-resident public sector	-	-	550,349	-	-	-	550,349
- Spanish credit institutions	18,791	-	25,351	-	-	-	44,142
- Credit institutions not resident in Spain	-	-	104,768	-	-	-	104,768
- Private sector (Spain)	1,901	-	223,958	-	-	-	225,859
- Private sector (rest of world)	-	-	56,433	-	-	-	56,433
- Non-performing assets	-	-	-	54,452	-	-	54,452
1.3 Loans and credits to customers	-	167,898	-	551,223	-	-	719,121
- Reverse repurchase agreements	-	167,898	-	-	-	-	167,898
- Mortgage loans	-	-	-	45,174	-	-	45,174
- Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-
- Other loans and credits	-	-	-	32,499	-	-	32,499
- Non-performing assets	-	-	-	55,390	-	-	55,390
- Other assets	-	-	-	418,160	-	-	418,160
Total debt instruments	606,452	1,066,588	3,174,578	1,311,919	-	-	6,159,537
2. Contingent liabilities							
Financial guarantees and other indemnities (Note 27.1)	-	-	-	-	-	65,223	65,223
Documentary credits (Note 27.1)	-	-	-	-	-	26,733	26,733
Total contingent liabilities	-	-	-	-	-	91,956	91,956
3. Other exposures-							
Derivatives	1,250,753	-	-	-	511	-	1,251,264
Drawable by third parties (Note 27.3)	-	-	-	-	-	125,671	125,671
Total other exposures	1,250,753	-	-	-	511	125,671	1,376,935
4. Less: impairment losses recognised	-	-	(1,404)	(94,035)		(134)	(95,573)
Maximum level of credit risk exposure (1+2+3+4)	1,857,205	1,066,588	3,173,174	1,217,884	511	217,493	7,532,855
Valuation adjustments	-	(152)	80,808	4	-	-	80,660
Total carrying amount	1,857,205	1,066,436	3,253,982	1,217,888	511	217,493	7,613,515

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2016.

31 December 2015:

	Thousands of Euros						
	Assets						
	Financial assets held for trading (Note 8.1) (1)	Financial assets designated at fair value through profit or loss (Note 8.2.1)	Available-for-sale financial assets (Note 9)	Loans and receivables (Note 10)	Derivatives – hedge accounting (Note 11)	Off-balance-sheet exposures	Total
1. Loans and receivables-							
1.1 Loans and credits to credit institutions	-	2,698,146	-	1,077,221	-	-	3,775,367
- Reverse repurchase agreements	-	2,698,146	-	472,084	-	-	3,170,230
- Time deposits	-	-	-	36,356	-	-	36,356
- Deposits provided as guarantee for securities lending transactions	-	-	-	-	-	-	-
- Non-performing assets	-	-	-	149	-	-	149
- Other accounts and other	-	-	-	568,632	-	-	568,632
1.2 Debt securities	1,135,252	-	4,021,417	92,886	-	-	5,249,555
- Government debt securities	896,784	-	1,755,296	3,200	-	-	2,655,280
- Treasury bills	170,085	-	1,365,994	-	-	-	1,536,079
- Other public agencies	18,820	-	152,895	-	-	-	171,715
- Non-resident public sector	-	-	340,215	-	-	-	340,215
- Spanish credit institutions	18,746	-	139,314	-	-	-	158,060
- Credit institutions not resident in Spain	-	-	-	-	-	-	-
- Private sector (Spain)	30,817	-	267,703	-	-	-	298,520
- Private sector (rest of world)	-	-	-	43,598	-	-	43,598
- Non-performing assets	-	-	-	46,088	-	-	46,088
1.3 Loans and credits to customers	-	29,958	-	825,583	-	-	855,541
- Reverse repurchase agreements	-	29,958	-	-	-	-	29,958
- Mortgage loans	-	-	-	47,218	-	-	47,218
- Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-
- Other loans and credits	-	-	-	203,443	-	-	203,443
- Non-performing assets	-	-	-	55,752	-	-	55,752
- Other assets	-	-	-	519,170	-	-	519,170
Total debt instruments	1,135,252	2,728,104	4,021,417	1,995,690	-	-	9,880,463
2. Contingent liabilities							
Financial guarantees and other indemnities (Note 27.1)	-	-	-	-	-	76,462	76,462
Documentary credits (Note 27.1)	-	-	-	-	-	23,498	23,498
Total contingent liabilities	-	-	-	-	-	99,960	99,960
3. Other exposures-							
Derivatives	1,362,311	-	-	-	222	-	1,362,533
Drawable by third parties (Note 27.3)	-	-	-	-	-	97,828	97,828
Total other exposures	1,362,311	-	-	-	222	97,828	1,460,361
4. Less: impairment losses recognised	-	-	(5,376)	(109,011)	-	(16)	(114,403)
Maximum level of credit risk exposure (1+2+3+4)	2,497,563	2,728,104	4,016,041	1,886,679	222	197,772	11,326,381
Valuation adjustments	-	243	96,891	145	-	-	97,279
Total carrying amount	2,497,563	2,728,347	4,112,932	1,886,824	222	197,772	11,423,660

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2015.

With respect to the credit derivatives arranged by the Bank, the foregoing tables only include the fair value at December 31, 2016 and 2015 of those derivatives with a debit balance, without considering the existence of offset 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 2016 and 2015:

31 December 2016:

	Thousands of Euros							
	Guaranteed by the State	Collateral comprising Spanish government debt	Collateral comprising other fixed-income securities	Collateral comprising shares	Netting agreements	With mortgage guarantee	Guaranteed by credit institutions	Total
1. Loans and receivables-								
1.1 Loans and credits to credit institutions	-	583,275	315,415	6,642	-	-	-	905,332
- Reverse repurchase agreements	-	583,275	315,415	6,642	-	-	-	905,332
- Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
- Time deposits	-	-	-	-	-	-	-	-
1.2 Debt securities	229,188	-	-		-	-	-	229,188
1.3 Loans and credits to customers	-	167,898	-	-	-	45,174	-	213,072
- Reverse repurchase agreements	-	167,898	-	-	-	-	-	167,898
- Mortgage loans	-	-	-	-	-	45,714	-	45,174
- Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
- Loans with other collateral	-	-	-	-	-	-	-	-
Total debt instruments	229,188	751,173	315,415	6,642	-	45,174	-	1,347,592
2. Contingent liabilities-								
Financial guarantees and other indemnities	-	-	-	-	-	-	-	-
Documentary credits	-	-	-	-	-	-	26,733	26,733
Total contingent liabilities	-	-	-	-	-	-	26,733	26,733
3. Other exposures-								
Derivatives (*)	-	-	-	-	1,897,667	-	-	1,897,667
Total other exposures	-	-	-	-	1,897,667	-	-	1,897,667
Total amount covered	229,188	751,173	315,415	6,642	1,897,667	45,174	26,733	3,271,992

(*) These EUR 1,897,667 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. Of this amount, EUR 1,817,908 thousand relate to IRSs which have matching liability balances for the same amount with the same counterparty. Since the requirements established in Note 2.7 are met, they are presented at their net amount in the balance sheet.

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31 December 2015:

	Thousands of Euros							
	Guaranteed by the State	Collateral comprising Spanish government debt	Collateral comprising other fixed-income securities	Collateral comprising shares	Netting agreements	With mortgage guarantee	Guaranteed by credit institutions	Total
1. Loans and receivables-								
1.1 Loans and credits to credit institutions	-	2,117,266	580, 880	472,084	-	-	-	3,170,230
- Reverse repurchase agreements	-	2,117,266	580,880	472,084	-	-	-	3,170,230
- Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
- Time deposits	-	-	-	-	-	-	-	-
1.2 Debt securities	593,808	-	-	-	-	-	-	593,808
1.3 Loans and credits to customers	-	29,958	-	-	-	47,218	-	77,176
- Reverse repurchase agreements	-	29,958	-	-	-	-	-	29,958
- Mortgage loans	-	-	-	-	-	47,218	-	47,218
- Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
- Loans with other collateral	-	-	-	-	-	-	-	-
Total debt instruments	593,808	2,147,224	580,880	472,084	-	47,218	-	3,841,214
2. Contingent liabilities-								
Financial guarantees and other indemnities	-	-	-	-	-	-	-	-
Documentary credits	-	-	-	-	-	-	23,498	23,498
Total contingent liabilities	-	-	-	-	-	-	23,498	23,498
3. Other exposures-								
Derivatives (*)	-	-	-	-	2,082,644	-	-	2,082,644
Total other exposures	-	-	-	-	2,082,644	-	-	2,082,644
Total amount covered	593,808	2,147,224	580,880	472,084	2,082,644	47,218	23,498	5,947,356

(*) These EUR 2,082,644 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 Of this amount, EUR 2,078,966 thousand relate to IRSs which have matching liability balances for the same amount with the same counterparty. When the requirements set forth in Note 2.7 are met, they are presented for a 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 2016, 75.4% of the exposure had been rated by a credit rating agency recognized by the Bank of Spain (63.5% at 31 December 2015). The distribution, by rating, of the rated exposure is as follows:

Level	Rating (*)	Percentage	
		2016	2015
1	AAA-AA	5.5%	4.1%
2	A	33.7%	38.6%
3	BBB	36.1%	24.3%
4	BB	20.5%	24.5%
5	B	4.2%	8.5%
6	CCC and below	-	-
	Total	100%	100%

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

This distribution of rated exposure excludes positions in government debt securities and guaranteed debt, and that corresponding to central counterparties, all of which are exempt for the purposes of the large risk limits.

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 2016 and 2015:

At 31 December 2016:

	Thousand of Euros							
	Resident Public Sector	Resident Credit Institutions	Other Resident Entities	Other Residents Sectors	Non-resident Public Sector	Non-Resident Credit Institutions	Other non-Resident Sectors	Total
1. Loans and receivables-								
1.1 Loans and credits to credit institutions	-	1,134,221	-	-	-	468,967	-	1,603,188
- Reverse repurchase agreements	-	732,749	-	-	-	172,583	-	905,332
- Time deposits	-	56,608	-	-	-	-	-	56,608
- Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
- Other accounts	-	340,364	-	-	-	152,709	-	493,073
- Other concepts	-	4,500	-	-	-	143,675	-	148,175
1.2 Debt Instruments	2,801,079	44,142	-	225,859	550,349	104,768	56,433	3,782,630
1.3 Loans and advances to customers	117,027	-	51,048	488,108	11	-	7,537	663,731
- Reverse repurchase agreements	116,850	-	51,048	-	-	-	-	167,898
- Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
- Other loans and credits	177	-	-	27,284	11	-	5,027	32,499
- Mortgage loans	-	-	-	45,174	-	-	-	45,174
- Other assets	-	-	-	415,650	-	-	2,510	418,160
Total debt instruments	2,918,106	1,178,363	51,048	713,967	550,360	573,735	63,970	6,049,549
2. Contingent liabilities-								
Financial guarantees and other indemnities	-	60,753	-	4,427	-	-	43	65,223
Documentary credits	-	26,733	-	-	-	-	-	26,733
Total contingent liabilities	-	87,486	-	4,427	-	-	43	91,956
3. Other exposures-								
Derivatives	-	172,676	428,567	175	-	649,846	-	1,251,264
Contingent commitments	-	9,030	116,641	-	-	-	-	125,671
Total other exposures	-	181,706	545,208	175	-	649,846	-	1,376,935
Total	2,918,106	1,447,555	596,256	718,569	550,360	1,223,581	64,013	7,518,440

At 31 December 2015:

	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	-	2,802,893	-	-	-	972,324	-	3,775,217
- Reverse repurchase agreements	-	2,450,122	-	-	-	720,108	-	3,170,230
- Time deposits	-	23,916	-	-	-	12,440	-	36,356
- Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
- Other accounts	-	325,211	-	-	-	160,525	-	485,736
- Other	-	3,644	-	-	-	79,251	-	82,895
1.2 Debt instruments	4,363,074	158,060	-	298,520	340,215	-	43,598	5,203,467
1.3 Loans and advances to customers	146	-	14,703	764,670	11	-	20,259	799,789
- Reverse repurchase agreements	-	-	14,703	15,255	-	-	-	29,958
- Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
- Other loans and credits	146	-	-	199,570	11	-	2,539	202,266
- Mortgage loans	-	-	-	47,218	-	-	-	47,218
- Other assets	-	-	-	502,627	-	-	17,720	520,347
Total debt instruments	4,363,220	2,960,953	14,703	1,063,190	340,226	972,324	63,857	9,778,473
2. Contingent liabilities-								
Financial guarantees and other indemnities	-	71,812	-	4,573	-	77	-	76,462
Documentary credits	-	22,978	-	520	-	-	-	23,498
Total contingent liabilities	-	94,790	-	5,093	-	77	-	99,960
3. Other exposures-								
Derivatives	-	262,817	472,742	262	-	626,712	-	1,362,533
Contingent commitments	-	9,760	87,768	-	-	300	-	97,828
Total other exposures	-	272,577	560,510	262	-	627,012	-	1,460,361
Total	4,363,220	3,328,320	575,213	1,068,545	340,226	1,599,413	63,857	11,338,794

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 2016 and 2015:

31 December 2016:

	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	117,038	-	116,820	-	-	-	116,820	-
Other financial institutions and individual entrepreneurs (financial business activity)	489,028	-	51,037	-	-	-	-	51,037
Non-financial entities and individual entrepreneurs (non-financial business activity)	6,284	-	-	-	-	-	-	-
Construction and property development	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-
Other purposes	6,284	-	-	-	-	-	-	-
Big enterprises	6,276	-	-	-	-	-	-	-
SMEs and individual entrepreneurs	8	-	-	-	-	-	-	-
Rest of households	51,381	45,174	-	8,289	6,093	14,389	9,701	6,702
Houses	47,359	45,174	-	8,289	6,093	14,389	9,701	6,702
Consumption	3,994	-	-	-	-	-	-	
Other purposes	28	-	-	-	-	-	-	-
Subtotal	663,731	45,174	167,857	8,289	6,093	14,389	126,521	57,739
Minus: Value adjustments for impairment of assets not attributable to specific operations	(4,739)	-	-	-	-	-	-	-
Total	658,992	45,174	167,857	8,289	6,093	14,389	126,521	57,739
Memorandum Item: Refinancing operations, refinanced and restructured	-	-	-	-	-	-	-	-

31 December 2015:

	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	157	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	742,618	-	29,958	-	-	-	-	29,958
Non-financial entities and individual entrepreneurs (non-financial business activity)	3,468	-	-	-	-	-	-	-
Construction and property development	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-
Other purposes	3,468	-	-	-	-	-	-	-
Big enterprises	3,416	-	-	-	-	-	-	-
SMEs and individual entrepreneurs	52	-	-	-	-	-	-	-
Rest of households	53,555	47,593	-	18,294	14,126	8,024	7,149	-
Houses	49,163	47,593	-	18,294	14,126	8,024	7,149	-
Consumption	4,362	-	-	-	-	-	-	-
Other purposes	30	-	-	-	-	-	-	-
Subtotal	799,798	47,593	29,958	18,294	14,126	8,024	7,149	29,958
Minus: Value adjustments for impairment of assets not attributable to specific operations	(1,222)	-	-	-	-	-	-	-
Total	798,576	47,593	29,958	18,294	14,126	8,024	7,149	29,958
Memorandum Item: Refinancing operations, refinanced and restructured	-	-	-	-	-	-	-	-

22.5. Information on non-performing loans ratios

In view of the activities carried on by the Group 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 1.44% at 31 December 2016 (0.89% at 31 December 2015).

22.6. Financial assets renegotiated in the year

At 31 December 2016, there were no outstanding balances relating to restructuring or refinancing transactions performed by the Group. At 31 December 2015, there was only one renegotiated transaction, with a financial company, for a gross amount of EUR 559 thousand. This transaction had been written off and was classified as doubtful. In 2016 the Group collected the amount of this transaction.

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 2016 and 2015:

	Thousands of Euros					
	31 December 2016			31 December 2015		
	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-						
1.1Loans and advances to credit institutions (Note 10)	146	-	146	149	-	149
1.2Debt instruments (Note 10)	54,452	-	54,452	46,088	-	46,088
1.3Loans and advances to customers (Note 10)	54,742	648	55,390	55,752	-	55,752
Total debt instruments	109,340	648	109,988	101,989	-	101,989
2.Contingent liabilities-						
2.1Financial bank guarantees and other bonds (Note 27.1)	-	-	-	-	-	-
2.2Documentary credits (Note 27.1)	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	-	-
3.Other exposures-						
3.1Derivatives (Note 8.1)	-	-	-	-	-	-
3.2Contingent commitments (Note 27.3)	-	-	-	-	-	-
Total other exposures	-	-	-	-	-	-
Total	109,340	648	109,988	101,989	-	101,989

Assets (secured loans) presented by the Group in the foregoing table as "individually impaired" at 31 December 2016 and 2015 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 Group's financial statements.

All the transactions considered by the Bank to be impaired at 31 December 2016 were classified under the "Loans and Receivables" category for EUR 109,988 thousand. The transactions considered by the Bank to be impaired at 31 December 2015 were classified in "Loans and Receivables" for EUR 101,989 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 Group in 2016 and 2015:

2016:

	Thousands of Euros					
	Balance at 1 January 2016	Net Additions (Reversals) Charged (Credited) to Income (*)	Transfers Between Items	Amounts Used in the Year	Other Movements (**)	Balance at 31 December 2016
1. Impairment losses not specifically identified						
1.1Loans and receivables-						
- Loans and advances to credit institutions	16	82	-	-	-	98
- Debt instruments	5,376	(3,972)	-	-	-	1,404
- Loans and advances to customers	1,222	3,517	-	-	-	4,739
Total Loans and Receivables	6,614	(373)	-	-	-	6,241
1.2Contingent risks -						
- Financial bank guarantees (Note 17.2)	16	118	-	-	-	134
Total Contingent Risks	16	118	-	-	-	134
1.3 Other exposures -	-	-	-	-	-	-
Total	6,630	(255)	-	-	-	6,375
2. Specifically identified impairment losses						
2.1 Loans and receivables -						
- Loans and advances to credit institutions	149	(98)	-	-	-	51
- Debt instruments	51,874	(17,259)	-	(623)	239	34,231
- Loans and advances to customers	55,750	(834)	-	-	-	54,916
Total debt instruments	107,773	(18,191)	-	(623)	239	89,198
2.2Contingent Risks -	-	-	-	-	-	-
Total Contingent Risks	-	-	-	-	-	-
2.3Other exposures -	-	-	-	-	-	-
Total	107,773	(18,191)	-	(623)	239	89,198
Total impairment losses (1+2)	114,403	(18,446)	-	(623)	239	95,573

(*) The total balance of “Net Additions/(Reversals) Charged/(Credited) to Income”, representing a recovery of EUR 18,446 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 2016.

(**) Relates to the increase in the specifically identified impairment losses on debt securities as a result of adjustments made for exchange differences.

2015:

	Thousands of Euros					
	Balance at 1 January 2015	Net Additions (Reversals) Charged (Credited) to Income (*)	Transfers Between Items	Amounts Used in the Year	Other Movements (***)	Balance at 31 December 2015
1. Impairment losses not specifically identified						
1.1 Loans and receivables-						
- Loans and advances to credit institutions	44	(28)	-	-	-	16
- Debt instruments	4,675	701	-	-	-	5,376
- Loans and advances to customers	844	378	-	-	-	1,222
Total Loans and Receivables	5,563	1,051	-	-	-	6,614
1.2 Contingent risks -						
- Financial bank guarantees	16	-	-	-	-	16
Total Contingent Risks	16	-	-	-	-	16
1.3 Other exposures -	-	-	-	-	-	-
Total	5,579	1,051	-	-	-	6,630
2. Specifically identified impairment losses						
2.1 Loans and receivables -						
- Loans and advances to credit institutions	-	149	-	-	-	149
- Debt instruments (**)	64,602	(9,770)	-	(5,933)	2,975	51,874
- Loans and advances to customers	66,692	(10,931)	-	(11)	-	55,750
Total debt instruments	131,294	(20,552)	-	(5,944)	2,975	107,773
2.2 Contingent Risks -	-	-	-	-	-	-
Total Contingent Risks	-	-	-	-	-	-
2.3 Other exposures -	-	-	-	-	-	-
Total	131,294	(20,552)	-	(5,944)	2,975	107,773
Total impairment losses (1+2)	136,873	(19,501)	-	(5,944)	2,975	114,403

(*) The total balance of "Net Additions/(Reversals) Charged/(Credited) to Income", representing a recovery of EUR 19,501 thousand, was recognized with a credit to "Impairment Losses on Financial Assets (Net)" (see Note 38) in the income statement for 2015.

(**) There was an increase 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 Group due to credit risk at 31 December 2016 and 2015:

31 December 2016:

	Thousands of Euros			
	Available-For-Sale Financial Assets (Note 9)	Loans and Receivables (Note 10)	Provisions for Contingent Liabilities and Commitments (Note 17.2)	Total
1. Impairment losses not specifically identified				
1.1 Loans and receivables-				
- Loans and advances to credit institutions	-	98	-	98
- Debt instruments	1,404	-	-	1,404
- Loans and advances to customers	-	4,739	-	4,739
Total Loans and Receivables	1,404	4,837	-	6,241
1.2 Contingent Risks -				
- Financial bank guarantees	-	-	134	134
Total contingent liabilities	-	-	134	134
1.3 Other exposures -	-	-	-	-
Total	1,404	4,837	134	6,375
2. Specifically identified impairment losses				
2.1 Loans and receivables -				
- Loans and advances to credit institutions	-	51	-	51
- Debt instruments	-	34,231	-	34,231
- Loans and advances to customers	-	54,916	-	54,916
Total loans and receivables	-	89,198	-	89,198
2.2Contingent Risks -	-	-	-	-
2.3. Other exposures -	-	-	-	-
Total	-	89,198	-	89,198
Total impairment losses (1+2)	1,404	94,035	134	95,573

31 December 2015:

	Thousands of Euros			
	Available-For-Sale Financial Assets (Note 9)	Loans and Receivables (Note 10)	Provisions for Contingent Liabilities and Commitments (Note 17.2)	Total
1. Impairment losses not specifically identified				
1.1 Loans and receivables-				
- Loans and advances to credit institutions	-	16	-	16
- Debt instruments	5,376	-	-	5,376
- Loans and advances to customers	-	1,222	-	1,222
Total Loans and Receivables	5,376	1,238	-	6,614
1.2 Contingent Risks -				
- Financial bank guarantees	-	-	16	16
Total contingent liabilities	-	-	16	16
1.3 Other exposures -	-	-	-	-
Total	5,376	1,238	16	6,630
2. Specifically identified impairment losses				
2.1 Loans and receivables -				
- Loans and advances to credit institutions	-	149	-	149
- Debt instruments	-	51,874	-	51,874
- Loans and advances to customers	-	55,750	-	55,750
Total loans and receivables	-	107,773	-	107,773
2.2 Contingent Risks -	-	-	-	-
2.3. Other exposures -	-	-	-	-
Total	-	107,773	-	107,773
Total impairment losses (1+2)	5,376	109,011	16	114,403

As 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 2016 and 2015 the Group 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 2016 and 2015 the Group 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 this years.

22.11. Exposure to real estate risk

The only operations granted by the Group at 31 December 2016 and 2015 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 2016		31 December 2015	
	Gross amount	From which: Doubtful	Gross amount	From which: Doubtful
Credit for house purchase -				
Without mortgage guarantee	1,805	18	1,953	19
With mortgage guarantee	45,174	555	47,593	375
	46,979	573	49,546	394

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 2016 and 2015:

31 December 2016:

	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	8,289	6,093	14,389	9,701	6,702	45,174
From which: Non-performing	-	121	68	366	-	555

31 December 2015:

	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	18,294	14,126	8,024	7,149	-	47,593
From which: Non-performing	-	375	-	-	-	375

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 2016 or 2015 or in the years then ended.

In 2016 and 2015 no guarantees associated with financial assets owned by the Group were executed in order to guarantee the collection thereof.

23. Exposure to market risk

23.1. Market risk management objectives, policies and processes

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

Given its activities in FX and 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 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Money and currency markets	700	904
Fixed-income and equities trading	-	938
Forex products	465	-
Debt table	686	-
Variable income table	460	-
Derivatives and structured products	-	567
Derivatives products	157	-
Credit table	75	151
Banknotes	27	31

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 of being able to finance at reasonable prices the commitments acquired, at a time when it is difficult to resort to external financing during a certain period.

- 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 2016 and 2015 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 2016:

	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	2,190,148	-	-	-	-	-	2,190,148
Financial assets held for trading - Debt securities	-	22,312	98,442	254,261	157,366	74,071	606,452
Financial assets held for trading - Other equity instruments	-	-	-	-	-	151,360	151,360
Other financial assets at fair value through profit or loss - Loans and advances to credit institutions	-	777,827	120,863	-	-	-	898,690
Other financial assets at fair value through profit or loss - Loans and advances to customers	-	167,898	-	-	-	-	167,898
Available-for-sale financial assets - Debt instruments (*)	-	169,034	684,828	1,558,288	663,328	179,908	3,255,386
Available-for-sale financial assets - Other equity instruments (**)	-	-	-	-	-	67,519	67,519
Loans and receivables - Loans and advances to credit institutions	635,490	58,934	1,033	4,747	4,287	153	704,644
Loans and receivables - Loans and advances to customers	187,361	45,402	285,734	32,726	-	-	551,223
Loans and receivables - Debt instruments	-	23,299	1,924	26,024	-	4,805	56,052
Total at 31 December 2016	3,012,999	1,264,706	1,192,824	1,876,046	824,981	477,816	8,649,372
Liabilities:							
Financial liabilities held for trading - short positions	-	433,716	-	-	-	-	433,716
Other financial liabilities at fair value through profit or loss - Deposits from credit institutions	-	38,516	-	-	-	-	38,516
Other financial liabilities at fair value through profit or loss - Customer deposits	-	147,419	-	-	-	-	147,419
Financial liabilities at amortized cost - Deposits from central banks	-	-	-	-	-	-	-
Financial liabilities at amortized cost - Deposits from credit institutions	827,403	125,328	6,528	-	-	-	959,259
Financial liabilities at amortized cost - Customer deposits	4,720,297	422,130	21	343	517	739	5,144,047
Total at 31 December 2016	5,547,700	1,167,109	6,549	343	517	739	6,722,957
Difference (assets less liabilities) at 31 December 2016	(2,336,717)	97,597	1,186,275	1,875,703	824,464	477,077	1,926,415

(*) Including valuation adjustments relating to accrued interest and valuation gains or losses.

(**) Presented at fair value.

Detail at 31 December 2015:

	Thousands of Euros						
	On Demand	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	216,165	-	-	-	-	-	216,165
Financial assets held for trading - Debt securities	-	113,670	5,992	395,975	394,525	225,090	1,135,252
Financial assets held for trading - Other equity instruments	-	28,945	-	-	-	92,331	121,276
Other financial assets at fair value through profit or loss - Loans and advances to credit institutions	-	1,548,883	951,017	198,246	-	-	2,698,146
Other financial assets at fair value through profit or loss - Loans and advances to customers	-	29,958	-	-	-	-	29,958
Available-for-sale financial assets - Debt instruments (*)	-	426,980	210,775	1,920,161	1,091,681	468,711	4,118,308
Available-for-sale financial assets - Other equity instruments (**)	-	-	-	-	-	89,080	89,080
Loans and receivables - Loans and advances to credit institutions	83,259	972,495	2,002	9,113	10,203	149	1,077,221
Loans and receivables - Loans and advances to customers	189,493	527,740	6	101	2,207	106,036	825,583
Loans and receivables - Debt instruments	-	-	-	-	29,299	63,587	92,886
Total at 31 December 2015	488,917	3,648,671	1,169,792	2,523,596	1,527,915	1,044,984	10,403,875
Liabilities:							
Financial liabilities held for trading - short positions	-	458,090	487,931	-	-	-	946,021
Other financial liabilities at fair value through profit or loss - Deposits from credit institutions	-	675,911	-	-	-	-	675,911
Other financial liabilities at fair value through profit or loss - Customer deposits	-	434,012	-	-	-	-	434,012
Financial liabilities at amortized cost - Deposits from central banks	-	-	-	-	-	-	-
Financial liabilities at amortized cost - Deposits from credit institutions	627,677	513,646	1,644	2,615	-	36,188	1,181,770
Financial liabilities at amortized cost - Customer deposits	4,598,127	946,317	22	280,322	866	807	5,826,461
Total at 31 December 2015	5,225,804	3,027,976	489,597	282,937	866	36,995	9,064,175
Difference (assets less liabilities) at 31 December 2015	(4,736,887)	620,695	680,195	2,240,659	1,527,049	1,007,989	1,339,700

(*) 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 Group 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 business and management efforts are 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 Entity 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 Group's financial assets at 31 December 2016 and 2015 (including valuation adjustments):

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

31 December 2016:

	Thousands of Euros				
	TOTAL	Spain	Rest of the European Union	America	Rest of the world
Central Banks and credit institutions	4,839,723	3,402,939	1,357,818	65,737	13,229
Public Administrations	3,533,644	2,981,397	552,247	-	-
• Central Administration	3,012,727	2,460,480	552,247	-	-
• Other	520,917	520,917	-	-	-
Other Credit Institutions	1,203,071	1,121,261	71,738	-	10,072
Non- financial societies and individual entrepreneurs	167,360	144,445	22,912	-	3
• Construction and property development	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-
• Other purposes	167,360	144,445	22,912	-	3
- Large companies	164,590	141,675	22,912	-	3
- SMEs and Individual entrepreneurs	2,770	2,770	-	-	-
Rest of households and NPISHs	51,497	51,486	11	-	-
• Houses	47,359	47,359	-	-	-
• Consumption	3,994	3,993	1	-	-
• Other purposes	144	134	10	-	-
Total	9,795,295	7,701,528	2,004,726	65,737	23,304

31 December 2015:

	Thousands of Euros				
	TOTAL	Spain	Rest of the European Union	America	Rest of the world
Central Banks and credit institutions	5,118,978	3,340,080	1,640,636	46,106	92,156
Public Administrations	4,777,871	4,435,474	342,397	-	-
• Central Administration	4,150,618	3,808,221	342,397	-	-
• Other	627,253	627,253	-	-	-
Other Credit Institutions	1,598,145	1,538,730	59,411	-	4
Non- financial societies and individual entrepreneurs	150,195	130,315	19,880	-	-
• Construction and property development	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-
• Other purposes	150,195	130,315	19,880	-	-
- Large companies	146,664	126,784	19,880	-	-
- SMEs and Individual entrepreneurs	3,531	3,531	-	-	-
Rest of households and NPISHs	53,685	53,673	12	-	-
• Houses	49,163	49,163	-	-	-
• Consumption	4,362	4,362	-	-	-
• Other purposes	160	148	12	-	-
Total	11,698,874	9,498,272	2,062,336	46,106	92,160

Risk Concentration by activity and geographical area. Activity in Spain (book value):

31 December 2016

	Thousands of Euros									
		Autonomous communities								
	TOTAL	Andalucía	Aragón	Asturias	Baleares	Canarias	Cantabria	Castilla - La Mancha	Castilla León	Cataluña
Central Banks and credit institutions	3,402,939	101,630	83,916	-	1,805	-	277,055	46,419	-	188,345
Public Administrations	2,981,397	94,047	24,116	-	-	-	1,653	52,056	82,066	-
• Central Administration	2,460,480	-	-	-	-	-	-	-	-	-
• Other	520,917	94,047	24,116	-	-	-	1,653	52,056	82,066	-
Other Credit Institutions	1,121,261	35,249	6	20	590	1	940	-	18,606	65,933
Non-financial societies and individual entrepreneurs	144,445	-	-	-	616	-	-	-	-	13,892
• Construction and property development	-	-	-	-	-	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-	-	-	-	-	-
• Other purposes	144,445	-	-	-	616	-	-	-	-	13,892
- Large companies	141,675	-	-	-	616	-	-	-	-	13,891
- SMEs and Individual entrepreneurs	2,770	-	-	-	-	-	-	-	-	1
Rest of households	51,486	-	-	-	-	-	-	356	233	-
• Houses	47,359	-	-	-	-	-	-	327	233	-
• Consumption	3,993	-	-	-	-	-	-	13	-	-
• Other purposes	134	-	-	-	-	-	-	16	-	-
Total	7,701,528	230,926	108,038	20	3,011	1	279,648	98,831	100,905	268,170

	Thousands of Euros								
	Autonomous communities								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Com. Valenciana	País Vasco	La Rioja	Ceuta y Melilla
Central Banks and credit institutions	-	77,519	2,362,542	-	-	202,985	60,723	-	-
Public Administrations	-	39,195	109,398	8,100	-	50,231	-	60,055	-
• Central Administration	-	-	-	-	-	-	-	-	-
• Other	-	39,195	109,398	8,100	-	50,231	-	60,055	-
Other Credit Institutions	-	20,724	978,794	-	-	-	398	-	-
Non- financial societies and individual entrepreneurs	-	18,095	97,660	-	643	210	13,275	54	-
• Construction and property development	-	-	-	-	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-	-	-	-	-
• Other purposes	-	18,095	97,660	-	643	210	13,275	54	-
- Large companies	-	18,095	95,155	-	643	-	13,275	-	-
- SMEs and Individual entrepreneurs	-	-	2,505	-	-	210	-	54	-
Rest of households	-	-	50,889	-	-	7	-	1	-
• Houses	-	-	46,799	-	-	-	-	-	-
• Consumption	-	-	3,979	-	-	-	-	1	-
• Other purposes	-	-	111	-	-	7	-	-	-
Total	-	155,533	3,599,283	8,100	643	253,433	74,396	60,110	-

31 December 2015:

	Thousands of Euros									
		Autonomous communities								
	TOTAL	Andalucía	Aragón	Asturias	Baleares	Canarias	Cantabria	Castilla - La Mancha	Castilla León	Cataluña
Central Banks and credit institutions	3,340,080	48,712	252,826	-	6,528	-	504,047	47,312	-	286,986
Public Administrations	4,435,474	30,260	38,045	-	-	-	3,306	53,201	71,542	-
• Central Administration	3,808,221	-	-	-	-	-	-	-	-	-
• Other	627,253	30,260	38,045	-	-	-	3,306	53,201	71,542	-
Other Credit Institutions	1,538,730	54,012	-	-	204	-	8,272	-	18,910	243,730
Non-financial societies and individual entrepreneurs	130,315	-	-	-	20	-	-	-	-	4,625
• Construction and property development	-	-	-	-	-	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-	-	-	-	-	-
• Other purposes	130,315	-	-	-	20	-	-	-	-	4,625
- Large companies	126,784	-	-	-	20	-	-	-	-	4,625
- SMEs and Individual entrepreneurs	3,531	-	-	-	-	-	-	-	-	-
Rest of households	53,673	1	-	-	-	-	-	349	249	-
• Houses	49,163	-	-	-	-	-	-	322	249	-
• Consumption	4,362	1	-	-	-	-	-	27	-	-
• Other purposes	148	-	-	-	-	-	-	-	-	-
Total	9,498,272	132,985	290,871	-	6,752	-	515,625	100,862	90,701	535,341

	Thousands of Euros								
	Autonomous communities								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Com. Valenciana	País Vasco	La Rioja	Ceuta y Melilla
Central Banks and credit institutions	-	48,198	1,846,021	-	-	91,517	207,933	-	-
Public Administrations	585	62,239	287,131	25,642	-	55,302	-	-	-
• Central Administration	-	-	-	-	-	-	-	-	-
• Other	585	62,239	287,131	25,642	-	55,302	-	-	-
Other Credit Institutions	-	21,177	1,187,228	-	-	-	5,197	-	-
Non- financial societies and individual entrepreneurs	-	7,699	111,664	-	-	257	5,996	54	-
• Construction and property development	-	-	-	-	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-	-	-	-	-
• Other purposes	-	7,699	111,664	-	-	257	5,996	54	-
- Large companies	-	7,699	108,444	-	-	-	5,996	-	-
- SMEs and Individual entrepreneurs	-	-	3,220	-	-	257	-	54	-
Rest of households	-	-	53,073	-	-	-	-	1	-
• Houses	-	-	48,592	-	-	-	-	-	-
• Consumption	-	-	4,333	-	-	-	-	1	-
• Other purposes	-	-	148	-	-	-	-	-	-
Total	585	139,313	3,485,117	25,642	-	147,076	219,126	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 2016 and 2015:

31 December 2016:

	Thousands of Euros			
	Financial Assets Held for Trading (Note 8.1)	Available-for-Sale Financial Assets (Note 9)	Non-current assets for sale (Note 12)	Total
By market listing-				
Shares listed in the Spanish secondary market	150,089	29,270	-	179,359
Shares listed in secondary markets in the rest of the world	1,271	21,906	-	23,177
Unlisted shares	-	16,343	15,394	31,737
	151,360	67,519	15,394	234,273
By issuer type-				
Spanish financial institutions	70,132	15,468	-	85,600
Other Spanish companies	79,957	29,900	15,394	125,251
Other foreign companies	1,271	22,151	-	23,422
	151,360	67,519	15,394	234,273

31 December 2015:

	Thousands of Euros			
	Financial Assets Held for Trading (Note 8.1)	Financial assets	Available-for-Sale Financial Assets (Note 9)	Total
By market listing-				
Shares listed in the Spanish secondary market	62,970	58,116	30,407	151,493
Shares listed in secondary markets in the rest of	190	-	23,750	23,940
Unlisted shares	-	-	34,923	34,923
	63,160	58,116	89,080	210,356
By issuer type-				
Spanish financial institutions	19,855	29,171	18,384	67,410
Other Spanish companies	43,115	28,945	46,601	118,661
Other foreign companies	190	-	24,095	24,285
	63,160	58,116	89,080	210,356

27. Other significant disclosures

27.1 Guarantees Provided

The breakdown of the balance of "Memorandum Items" in the consolidated balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Financial bank guarantees and other cautions (see Note 22.2)	65,223	76,462
Documentary credits (see Note 22.2)	26,733	23,498
	91,956	99,960

"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 Group in the course of its ordinary business, if the parties who are originally liable to pay fail to do so. Note 22 includes information on the credit risk assumed by the Bank in relation to financial guarantees provided.

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.

Commission income from these financial guarantees is recognized under "Commission Income" in the consolidated 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 134 thousand at 31 December 2016 (31 December 2015: EUR 16 thousand), were recognized under "Provisions - Provisions for Contingent Liabilities and Commitments" in the balance sheet (see Note 17.2).

27.2. Assets delivered as security

At 31 December 2016 and 2015, assets owned by the Group had been provided as security for transactions performed by it or by third parties, 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 2016 and 2015 was as follows:

	Thousands of Euros	
	2016	2015
Spanish government debt securities classified as available-for-sale financial assets	392,624	241,474
Value issued by other public institutions	43,801	205,153
Other securities classified as available-for-sale financial assets	265,800	331,300
	702,225	777,927

At 31 December 2016 and 2015, the Bank had securities with a face value of EUR 49,669 and 515,399 thousand respectively as security for the performance of the Bank's obligations relating to transactions with the clearing and settlement services.

At 31 December 2016, the Bank had entered into repurchase agreements for securities in its portfolio and reverse repurchase agreements for a total amount of EUR 193,357 thousand (31 December 2015: EUR 1,396,915 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 2016 and 2015, 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. Contingent commitments

The breakdown of the balance of "Contingent Commitments" at 31 December 2016 and 2015 is as follow:

	Thousands of Euros	
	2016	2015
Drawable by third parties (Note 22.2):		
Credit institutions	9,030	9,760
Other resident sectors	116,641	87,768
Non-resident sectors	-	300
	125,671	97,828
Financial asset forward purchase commitments	399	4,272
Regular way financial asset purchase contracts	151,390	205,126
Other contingent commitments	2,986	104,848
	280,446	412,074

27.4. Transactions for the account of third parties

The breakdown of the most significant transactions for the account of third parties at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Financial instruments granted to third parties-		
Debt instruments	74,788,912	70,110,096
Equity instruments	46,309,628	41,444,146
	121,098,540	111,554,242
Other financial assets	18,317,952	26,247,864
	139,416,492	137,802,106
Conditional bills and other securities received for collection	156,829	166,707
Borrowed securities (Note 27.5)	101,798	57,364
	139,675,119	138,026,177

27.5 Financial assets lent and borrowed

Pursuant to current legislation, the securities received by the Group in securities lending transactions are not recognized in the consolidated 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 operations in which the Group lends securities to third parties are not reflected in the balance sheet. The securities lent may be securities borrowed previously by the Group or securities owned by the Group, not being derecognised in the latter case those securities borrowed from the consolidated balance sheet.

Deposits provided or received as security or guarantee for the securities received or lent by the Group, 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 consolidated income statement, by applying the corresponding effective interest rate.

At 31 December 2016 and 2015, the Group had not lent any financial assets.

Following is a detail of the fair value of the financial assets borrowed and lent by the Group in securities lending transactions at 31 December 2016 and 2015:

	Thousands of Euros	
	2016	2015
Securities borrowed by the Bank-		
Debt instruments issued by Public sector – Spain (Note 27.4)	101,798	57,364
	101,798	57,364

27.6 The Group's Customer Care Service

Following is a summary of the complaints and claims received by the Group's Customer Care Service in 2016 and 2015:

	2016	2015
Number of complaints and claims received	3	4
Number of complaints and claims admitted for consideration	1	1
Number of complaints and claims resolved	1	1
Number of complaints and claims resolved in favour of the complainant	-	1
Number of complaints and claims resolved against the claimant	1	-
Compensation paid to claimants	-	19
Number of complaints and claims outstanding	-	-

28. Interest income

The breakdown of the most important interest income earned by the Group in 2016 and 2015, by type of instrument giving rise to it, is as follows:

	Thousands of Euros	
	2016	2015
Financial assets held for trading	22,143	12,894
Financial assets designated at fair value through profit or loss	25	959
Financial assets for sale	52,737	49,072
Loans and receivables	2,790	2,937
Derivatives – hedge accounting, interest rate risk	1,357	(2,485)
Interest income from financial liabilities	31,377	3,902
Other assets	705	195
	111,134	67,414

"Interest Income from Financial Liabilities" in the table above includes the income arising in 2016 and 2015, respectively, from the Group's on-balance-sheet financial liabilities that bore negative interest rates.

29. Interest expenses

The detail of the balance of “Interest Expenses” in the consolidated income statement for 2016 and 2015, by type of instrument giving rise to them, is as follows:

	Thousands of Euros	
	2016	2015
Financial liabilities held for trading	23,723	11,185
Financial liabilitiess designated at fair value through profit or loss	-	85
Financial liabilities at amortized cost	6,918	5,708
Interest Expenses from financial assets	42,193	2,733
Other liabilities	15	361
Interest cost of pension funds (Note 35)	299	563
	73,148	20,635

“Interest Expenses from Financial Assets” in the table above includes the expenses arising in 2016 from the Group'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 2016 and 2015:

	Thousands of Euros	
	2016	2015
Financial assets held for trading	28,366	3,058
Financial assets available for sale	5,475	2,416
	33,841	5,474

At 31 December 2016, under the heading "Financial assets held for trading" have been registered, among other items, EUR 21,303 thousand relating to the sale of rights on shares of Iberdrola, S.A., previously acquired in the market, to that same company, based on the conditions of the Iberdrola Dividendo Flexible scrip dividend scheme. The expense associated with the purchase of these rights is recognized under “Gains/Losses on Financial Assets and Liabilities (Net) - Held for Trading” in the accompanying 2016 consolidated income statement (see Note 33).

31. Commission income

Following is a detail of the commission income earned in 2016 and 2015, classified on the basis of the main items giving rise thereto:

	Thousands of Euros	
	2016	2015
Commissions arising from contingent liabilities (Note 27.1)	689	801
Commissions arising from collection and payment services	26,942	26,449
Commissions arising from securities services	95,236	90,292
Commissions arising from foreign exchange and foreign banknotes	785	511
Other commissions	10,909	10,399
	134,561	128,452

The balance of “Commissions Arising from Securities Services” in the foregoing table includes, inter alia, EUR 90,771 thousand earned in 2016 (2015: EUR 85,833 thousand) relating to the depository and custody services in connection with securities of third parties (mainly collective investment undertakings and pension funds) deposited at the Bank.

Note 5 includes information on the breakdown by geographic area in which these "Commission Income" originates.

32. Commission expense

Following is a detail of the commission expense incurred in 2016 and 2015, classified on the basis of the main items giving rise thereto:

	Thousands of Euros	
	2016	2015
Commissions assigned to other entities and correspondents	8,801	9,023
Commission expenses on securities transactions	6,802	7,447
	15,603	16,470

33. Net gains/losses on financial assets and liabilities

The breakdown of the balance of “Gains/Losses on Financial Assets and Liabilities” in the consolidated income statement for the exercise 2016 and 2015, by type of financial instrument giving rise to them, is as follows:

	Thousands of Euros	
	2016	2015
Net gains/losses on financial assets and liabilities held for trading, net	(38,902)	8,371
Net gains/losses from unsubcribe financial assets and liabilities not valued at fair value through profit or loss		
Available-for-sale financial assets	16,470	15,480
Loans and receivables	41	108
Net gains/losses on financial assets and liabilities designated at fair value through profit or loss	(290)	(1,215)
Net gains/losses resulting from hedge accounting	(4,802)	(2,369)
	(27,483)	20,375

Note 5 includes information on the breakdown by geographic area in which these "Gains/Losses on Financial Assets and Liabilities, net" originate.

34. Other operating income

The breakdown of the balance of “Other Operating Income” in the consolidated income statement for exercise 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Rental income (Note 13)	1,214	1,200
Income from expenses charged	15,599	17,781
Other income	33,355	35,963
	50,168	53,944

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 2016 EUR 11,543 thousand (11,571 thousand in 2015) (see Note 40).

Note 5 includes information on the breakdown by geographical area in which these "Other Operating Income" originates.

35. Administrative expenses – Staff Costs

The detail of “Administrative Expenses – Staff Costs” in the consolidated income statement for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Wages and salaries	40,518	42,139
Social security costs	7,000	7,103
Insurance premiums (Note 2.11.2)	358	376
Termination Benefits (Note 2.11.4)	2,722	2,000
Contributions to defined contribution plans (Note 2.11.2)	843	1,386
Normal cost for the year of defined benefit obligations	14	20
Income from insurance policies	-	(73)
Training expenses	85	139
Other staff costs	581	542
	52,121	53,632

In 2016 and 2015, the average number of employees at the Group, by level, was as follows:

	2016			2015		
Proffesional levels	Men	Women	Total	Men	Women	Total
1 - LEV.I	5	-	5	5	-	5
1 - LEV.II	11	4	15	13	4	17
1 - LEV.III	16	13	29	13	12	25
1 - LEV.IV	31	15	46	30	14	44
1 - LEV.V	29	24	53	30	25	55
1 - LEV.VI	68	61	129	71	55	126
1 - LEV.VII	18	36	54	20	35	55
1 - LEV.VIII	39	66	105	34	60	94
1 - LEV.IX	6	15	21	11	19	30
1 - LEV.X	9	16	25	10	19	29
1 - LEV.XI	6	11	17	12	22	34
1 - LEV.XII	-	-	-	-	1	1
2 - LEV.II	5	-	5	5	-	5
2 - LEV.III	1	-	1	2	-	2
OTHERS	9	8	17	6	8	14
	253	269	522	262	274	536

The average number of people employed during the 2016 and 2015 exercises, with a disability of 33% or more, broken down by category, was as follows:

Categories	2016	2015
2 - LEV.II	1	1
	1	1

At 31 December 2016, the total number of employees was 523 (2015: 523), of whom 254 were men (2015: 254) and 269 women (2015: 269), representing 49% and 51%, respectively, as in the previous year.

Relating to defined benefit post-employment obligations and long-term pre-retirement obligations (pre-retirements) to current and former employees of the Bank (the only Group entity that has significant commitments of this type) 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 Group:

At 31 December 2016:

	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	193,664	198,835	(5,171)	-	-	-	(5,171)
Not instrumented in pension plans or insurance policies	-	-	-	76,166	-	76,166	76,166
Total at 31 December 2016	193,664	198,835	(5,171)	76,166	-	76,166	70,995

(*) This amount is recognized under "Provisions – Other Long-Term Employee Benefits" on the liability side of the balance sheet as at 31 December 2016 (see Note 17.2).

(**) This amount is recognized under "Other Assets – Other" in the balance sheet as at 31 December 2016 (see Note 15.1).

At 31 December 2015:

	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	193,548	196,932	(3,384)	-	-	-	(3,384)
Not instrumented in pension plans or insurance policies	-	-	-	91,094	-	91,094	91,094
Total at 31 December 2015	193,548	196,932	(3,384)	91,094	-	91,094	87,710

(*)This amount is recognized under "Provisions - Provisions for Pensions and Similar Obligations" on the liability side of the balance sheet as at 31 December 2015 (see Note 17.2).

(**) This amount is recognized under "Other Assets" in the balance sheet as at 31 December 2015 (see Note 15.1).

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 Group'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 2016 was 28.24 years for assets and 11.35 for liabilities. (At 31 December 2015 25.57 and 11.31 respectively)

Following is the reconciliation of the beginning and ending balances in 2016 and 2015 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 2016:

	Thousands of Euros						
	Post-employment benefits			Long-term pre-retirement obligations			Total (III + VI)
	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)	
1. Amount at 1 January 2016	193,548	196,932	(3,384)	91,094	-	91,094	87,710
2. Current service cost	14	-	14	-		-	14
3. Expected return on plan assets	-	3,115	(3,115)	-	-	-	(3,115)
4. Interest cost	3,039	-	3,039	299	-	299	3,338
5. Contributions made by the participants of the plan	-	-	-	-	-	-	-
6. Contributions made by the Bank	-	8	(8)	-	-	-	(8)
7. Effect of the recalculation on the valuation of the net obligations:	7,685	9,402	(1,717)	(954)	-	(954)	(2,671)
7.1 Actuarial gains and losses arising as a result of changes in the demographic assumptions	1,704	1,317	387				
7.2 Actuarial gains and losses arising as a result of changes in the financial assumptions	5,981	8,085	(2,104)				
7.3 Effect of the change in return on plan assets	-	-	-	-	-	-	-
8. Benefits paid	(10,622)	(10,622)	-	(14,273)	-	(14,273)	(14,273)
9. Past service cost	-	-	-	-	-	-	-
10. Business combinations	-	-	-	-	-	-	-
11. Plan reductions	-	-	-	-	-	-	-
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 2016	193,664	198,835	(5,171)	76,166	-	76,166	70,995

Year 2015:

	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 2015	200,302	200,438	(136)	84,498	-	84,498	84,362
2. Current service cost	20	-	20	-	-	-	20
3. Expected return on plan assets	-	3,429	(3,429)	-	-	-	(3,429)
4. Interest cost	3,343	-	3,343	563	-	563	3,906
5. Contributions made by the participants of the plan	-	-	-	-	-	-	-
6. Contributions made by the Bank	-	10	(10)	-	-	-	(10)
7. Effect of the recalculation on the valuation of the net obligations:	527	3,699	(3,172)	(2,159)	-	(2,159)	(5,331)
7.1 Actuarial gains and losses arising as a result of changes in the demographic assumptions	(660)	(472)	(188)				
7.2 Actuarial gains and losses arising as a result of changes in the financial assumptions	1,187	4,171	(2,984)				
7.3 Effect of the change in return on plan assets	-	-	-	-	-	-	-
8. Benefits paid	(10,644)	(10,644)	-	(16,010)	-	(16,010)	(16,010)
9. Past service cost	-	-	-	-	-	-	-
10. Business combinations	-	-	-	-	-	-	-
11. Plan reductions	-	-	-	-	-	-	-
12. Plan settlements	-	-	-	-	-	-	-
13. Limits on the recognition of net assets for exceeding the maximum available economic benefits	-	-	-	-	-	-	-
14. Early retirement commitments in Exercise	-	-	-	24,202	-	24,202	24,202
Amount at 31 December 2015	193,548	196,932	(3,384)	91,094	-	91,094	87,710

The amount recognized by the Group in relation to the current service cost for defined benefit plans in 2016 amounted to EUR 14 thousand. It was recognized under "Administrative Expenses - Staff Costs" in the accompanying income statement (2015: EUR 20 thousand).

In addition, the Group 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 299 thousand in 2016, under "Interest Expenses" in the consolidated income statement (having recognized EUR 563 thousand in the same connection under "Interest Expenses" in the consolidated income statement for 2015) (see Note 29).

In addition, the Group recognized a charge of EUR 954 thousand under " Provisions or reversal of provisions" in the income statement for 2016 for the provisions and recoveries of provisions for pensions and similar obligations (2015: EUR 22,043 thousand) the detail of which is presented below (see Note 17):

	Thousands of Euros	
	2016	2015
Current service cost for long-term pre-retirement obligations acquired during the year (Note 2.11.3.1)[1]	-	24,202
Actuarial gains and losses arising from the valuation of the long-term pre-retirement obligations	(954)	(2,159)
	(954)	22,043

(1) Includes the cost associated with the approval of a new pre-retirement plan in 2015 (see Note 2.11.3.1)

In 2016 and 2015 the Group 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 1,202 and EUR 2,220 thousand, respectively, under " Other accumulated net result - Items that can not be reclassified into income – Actuarial gains and losses from defined benefit pension obligations in the Group's equity (see Notes 2.11.2 and 18.3). The change in this equity item is presented in the accompanying consolidated statement of changes in equity.

The assumptions used in the actuarial calculations at 31 December 2016 and 2015 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 2016 and 2015:

- Mortality tables: PERM 2000-P, at 31 December 2016 and 2015.
- Discount rate:
    - For the assets, 1.38% (market discount rate) at 31 December 2016 (31 December 2015: 1.81%).
    - For the liabilities, 1.20% (market discount rate) at 31 December 2016 (31 December 2015: 1.61%).
- Adjustable pension increase rate: 2.5% at 31 December 2016 and 2015.
- Adjustable salary increase rate: 2.68% at 31 December 2016 and 2015.
- Expected rate of return on plan assets:
    - 1.61% for the assets included in the pension plan at 31 December 2016 (At 31 December 2015: 1.71%).
    - 2.15% for the obligations covered by the insurance policy at 31 December 2016 (At 31 December 2015: 4.01%).

Other long-term obligations at 31 December 2016 and 2015:

- Mortality tables: PERM/F 2000-P, at 31 December 2016 and 2015.
- Discount rate (market discount rate):
    - 2011 pre-retirement plan: 0.23% at 31 December 2016 and 0.47% at 31 December 2015.
    - 2012 pre-retirement plan: 0.23% at 31 December 2016 and 0.47% at 31 December 2015.
    - 2013 pre-retirement plan: 0.23% at 31 December 2016 and 0.47% at 31 December 2015.
    - 2015 pre-retirement plan: 0.23% at 31 December 2016 and 0.47% at 31 December 2015.
- Salary increase:
    - 2011 pre-retirement plan: 1.50% at 31 December 2016 and 2015.
    - 2012 pre-retirement plan: 0.00% at 31 December 2016 and 2015.
    - 2013 pre-retirement plan: 0.00% at 31 December 2016 and 2015.
    - 2015 pre-retirement plan: 0.00% at 31 December 2016 and 2015.

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 2016, 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 2016 would give rise to a EUR 10,774 thousand reduction and a EUR 11,827 thousand increase, respectively, in the value of the obligations (at 31 December 2015: EUR 10,778 and EUR 11,837 thousands, respectively).

A 50 basis point upward/downward shift in the pension discount rate at 31 December 2016 would give rise to a EUR 10,649 thousand reduction and a EUR 11,671 thousand increase, respectively, in the value of the obligations (at 31 December 2015: EUR 10,517 and EUR 11,532 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 1,183 thousand reduction and a EUR 1,216 thousand increase, respectively (at 31 December 2015: EUR 958 and EUR 984 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 2016, changes that might significantly affect the value of the obligations in the future are not considered likely to occur.

Following is a detail, by nature, of the assets assigned to the coverage of the Group's pension and other defined benefit long-term obligations at 31 December 2016 and 2015 shown in the foregoing tables:

	Thousands of Euros					
	2016			2015		
	Pension obligations	Other long-term obligations	Total	Pension obligations	Other long-term obligations	Total
Pension fund	3,348	-	3,348	4,073	-	4,073
Insurance policies taken out with CASER	195,487	-	195,487	192,859	-	192,859
Total	198,835	-	198,835	196,932	-	196,932

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 ("Fondo de Pensiones de Empleados de la Confederación Española de Cajas de Ahorros"). The latter comprises the defined contribution and defined benefit obligations to CECA's current and former employees (see Note 2.11). The detail, by principal asset category and related fair value, of this fund's assets at 31 December 2016 and 2015, is as follows:

	2016	2015
Quoted Spanish government debt	23.11%	18.27%
Quoted private fixed-income securities	33.70%	30.38%
Quoted equity securities	31.29%	24.06%
Cash and bank balances	10.47%	17.91%
Other assets (1)	1.43%	9.38%
Total	100%	100%

(1) The fund's assets do not include properties or items of property plant and equipment.

With regard to the assets of the pension fund included in the foregoing table, it should be noted that at 31 December 2016 and 2015 there were no financial assets relating to assets issued by the Group.

Following is the detail, at 31 December 2016 and 2015, of the present value of the obligations and of the fair value of the plan assets covering the defined amount pension and other long-term obligations (pre-retirements) held by the Group, together with the experience adjustments (in terms of actuarial gains and losses recognized at those dates as part of the Group´s equity):

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	Thousands of Euros					
	Pension obligations			Other long-term obligations		
	Present value of the obligations	Fair value of plan assets	Net amount	Present value of the obligations	Fair value of plan assets	Net amount
31 December 2016	193,664	198,835	(5,171)	76,166	-	76,166
Actuarial gains and losses at that date	7,685	(9,402)	(1,717)	(954)	-	(954)
31 December 2015	193,548	196,932	(3,384)	91,094	-	91,094
Actuarial gains and losses at that date	527	(3,699)	(3,172)	(2,159)	-	(2,159)

The Group's best estimate of the contributions to be made to the various defined benefit pension plans and similar obligations to the Group's current and former employees in 2017 is EUR 17 thousand.

On the other hand, the detail of actuarial gains and losses recognized under "Actuarial gains or losses on defined benefit pension plans" in the consolidated balance sheet at the beginning and end of 2016 and 2015 and of the changes therein in those years is as follows:

	Thousands of Euros
Balance at 1 January 2015	6,040
Effect of the change in policy due to regulatory changes	2,220
Effect of the limit on the recognition of plan assets	-
Balance at 31 December 2015	8,260
Actuarial gains and losses in 2016	1,202
Effect of the limit on the recognition of plan assets	-
Balance at 31 December 2016	9,462

36. Administrative expenses - Other general administrative expenses

The detail of this heading in the consolidated income statements for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Property, fixtures and supplies	3,556	4,455
IT equipment	20,820	21,979
Communications	1,607	2,092
Advertising and publicity	235	1,230
Technical reports	1,321	1,477
Surveillance and cash courier services	7,280	6,897
Insurance and self-insurance premiums	404	408
Outsourced administrative services	16,348	15,844
Levies and taxes	3,779	2,179
Entertainment and travel expenses	572	288
Association membership fees	1,354	1,187
External personnel	2,498	2,487
Subscriptions and publications	2,959	3,220
Other administrative expenses	1,647	250
	64,380	63,993

The balance of “Technical Reports” in 2016 and 2015 includes the fees paid for the audit of the financial statements of the Group and other non-attest services, the detail being as follows:

	Thousands of Euros	
	2016	2015
Audit services	279	229
Other attest services	124	124
Total audit and related services	403	353
Tax counselling services	-	-
Other services	221	652
	221	652
Total professional services	624	1,005

The services commissioned by the Group 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 Entity for which the related expense is recognized, mainly, under "Administrative Expenses – Other General 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 2016 and 2015 required under the aforementioned legislation, in the format required by the ICAC Resolution mentioned in the foregoing paragraphs, is as follows:

	2016	2015
	Days	Days
Average period of payment to suppliers	37	40
Ratio of transaction settled	37	40
Ratio of transaction not yet settled	31	47
	Thousands of Euros	Thousands of Euros
Total payments made	89,754	81,389
Total payments outstanding	4,631	4,198

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 consolidated income statement for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Contribution to the Deposit Guarantee Fund (Note 1.10.a)	51	71
Contribution to the National Resolution Fund (Note 1.10.b)	-	3,990
Contribution to the Single Resolution Fund (Note 1.10.c)	3,835	-
Other Concepts	5,684	4,574
	9,570	8,635

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 consolidated income statement for 2016 and 2015 is as follows:

	Thousands of Euros	
	Net (Additions)/ Reversals (Charged)/ Credited to Income	
	2016	2015
Financial assets available for sale-		
Debts instruments (Note 22.8)	3,972	(703)
Equity instruments	(7,358)	(237)
	(3,386)	(940)
Loans and receivables (Note 22.8)	14,474	20,204
	14,474	20,204
	11,088	19,264

39. Amortisation

The detail of “Amortisation” in the consolidated income statement for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Amortisation of tangible assets (Note 13)	2,941	2,797
Amortisation of intangible assets (Note 14)	52,681	46,912
	55,622	49,709

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 the 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 11,543 and 11,571 thousand in 2016 and 2015 respectively, are recognized under "Other operating income" in the income statement for the year 2016 and 2015 (see Note 34).

Similarly, interest on the account to view the Confederación Española de Cajas de Ahorro with the Bank are included under “Interest expenses” totaling EUR 2 and 10 thousand at 31 December 2016 and 2015, respectively. At 31 December 2016, the amount of this demand deposit was EUR 23,252 thousand (31 December 2015: EUR 16,813 thousand).

The amount of the fees received by the Bank accrued by the Spanish Confederation of Savings Banks amounted to EUR 5 thousand at December 31, 2016 and 2015.

At 31 December 2016 and 2015, the demand deposits held by the Bank’s senior executives, the members of its Board of Directors and related entities and individuals totaled EUR 884 and 665 thousand respectively, and the loans granted to them amounted to EUR 760 and 1.053 thousand respectively. These amounts bore interest of the exercise 2016 and 2015 EUR 8 and 12 thousand and 1 thousand euros, which were recognized under “Interest Income” and “Interest Expenses”, in the income statements for 2015.

The breakdown of the balances arising from transactions with jointly controlled entities recognized in the balance sheets at 31 December 2016 and 2015 and in the income statements for 2016 and 2015 is as follows (Note 2.1):

	Thousands of Euros	
	2016	2015
Assets:		
Loans and Receivables – Loans and Advances - Customers	728	247
Liabilities:		
Financial liabilities at amortised cost	289	308
Losses and Profits:		
Other operating income	2,699	2,539
Administrative Expenses - Other administrative expenses	77	87

These positions relate to the entities classified as “Group entities”, since the Bank does not have any investments classified as “jointly controlled entities” or “associates” in the accompanying balance sheets as at 31 December 2016 and 2015.

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 consolidated financial statements are presented on the basis of IFRSs as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

Appendix I – Subsidiaries included in the Group

At 31 December 2016:

Entity	Location	Line of business	Proportion of ownership Interest (%)			Thousands of Euros – Entity data at 31 December 2016 (*)			
			Direct	Indirect	Total	Assets	Liabilities	Equity	Profit for the year
Servipagos, S.A.U.	Madrid	Provision of technical payment services	100	-	100	138	15	123	8
CEA Trade Services Limited	Hong Kong	Foreign Trade	100	-	100	14	9	5	-
Trionis, S.C.R.L.	Brussels	Development and maintenance of the international payment services operative	78.6	-	78.6	4,010	2,036	1,974	20

(*) These companies' financial statements at 31 December 2016 have not yet been approved by their shareholders at the respective Annual General Meetings.

At 31 December 2015:

Entity	Location	Line of business	Proportion of ownership Interest (%)			Thousands of Euros – Entity data at 31 December 2015			
			Direct	Indirect	Total	Assets	Liabilities	Equity	Profit for the year
Servipagos, S.A.U.	Madrid	Provision of technical payment services	100	-	100	124	9	115	(119)
CEA Trade Services Limited	Hong Kong	Foreign Trade	100	-	100	13	9	4	-
Trionis, S.C.R.L.	Brussels	Development and maintenance of the international payment services operative	75	-	75	6,464	4,421	2,043	527

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 a branch in London (United Kingdom) and representative offices in Paris (France) and Frankfurt (Germany) and two subsidiaries abroad, one in Hong Kong and another in Belgium.

- The Cecabank Group is composed of the following entities, in addition to the Parent, Cecabank, S.A. as Subsidiaries: Cea Trade Services Limited, incorporated in 2004 in order to foster the provision of foreign trade services to savings banks, and Servipagos, S.A.U., incorporated in 2014, whose company object is the provision of technical payment services and 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 255,078 thousand in 2016 and EUR 281,733 thousand in 2015.

c) Number of employees on a full time equivalent basis:

At 31 December 2016, the Cecabank Group had 509 full-time employees (a further ten had reduced working hours and four worked part-time). At 31 December 2015, the Group had 512 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 2016 year-end amounted EUR 108,401 thousand (2015: EUR 104,104 thousand).

e) Tax on profit or loss:

Tax on the profit for the year ended 31 December 2016 amounted to EUR 32,002 thousand (2015: EUR 28,298 thousand).

f) Public subsidies received:

The entity has not received any subsidies during the year 2016 (2015: EUR 75 thousand).

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 2016 by the total balance sheet, was 0.76% at 31 December 2016 (31 December 2015: 0.63%).

Formulation Of The Annual Accounts And Management Report

Diligence to record that the Board of Directors of Cecabank, S.A., at its meeting of 20 February 2017, formulated the Annual Accounts and the Management Report of Cecabank, S.A. for the 2016 financial year, documents that have been transcribed, including the present request, on the front of 140 sealed sheets and which are endorsed with the signature below of all members of the Board of Directors of Cecabank, S.A.

Madrid, 20 February 2017

D. Antonio Massanell Lavilla

Non-executive president. ID. 37.663.160 Q

D. José Luis Aguirre Loaso

Non-executive vice-president. ID. 17.109.813 K

D. José María Méndez Álvarez-Cedrón

Adviser – General Manager. ID. 33.858.605 Y

D. Manuel Azuaga Moreno	D. Joaquín Cánovas Páez
Adviser. ID. 24.750.256 W	Adviser. ID. 22.923.045 A
D. Santiago Carbó Valverde	D. Francisco Javier García Lurueña
Adviser. ID. 25.393.887 R	Adviser. ID. 14.576.670 Y
D. José Manuel Gómez de Miguel	D. Antonio Ortega Parra
Adviser. ID. 51.597.496 D	Adviser. ID. 22.889.335 B

D. Jesús Ruano Mochales

Adviser. ID. 33.518.307 Q

Dª. Julia Salaverría Monfort

Adviser. ID. 15.951.097 E

Dª. María del Mar Sarro Álvarez

Adviser. ID. 50.292.331 W

D. Francisco Botas Ratera

Adviser. ID. 32.782.987 Y

Dª. Carmen Motellón García

Adviser. ID. 09.754.790 F