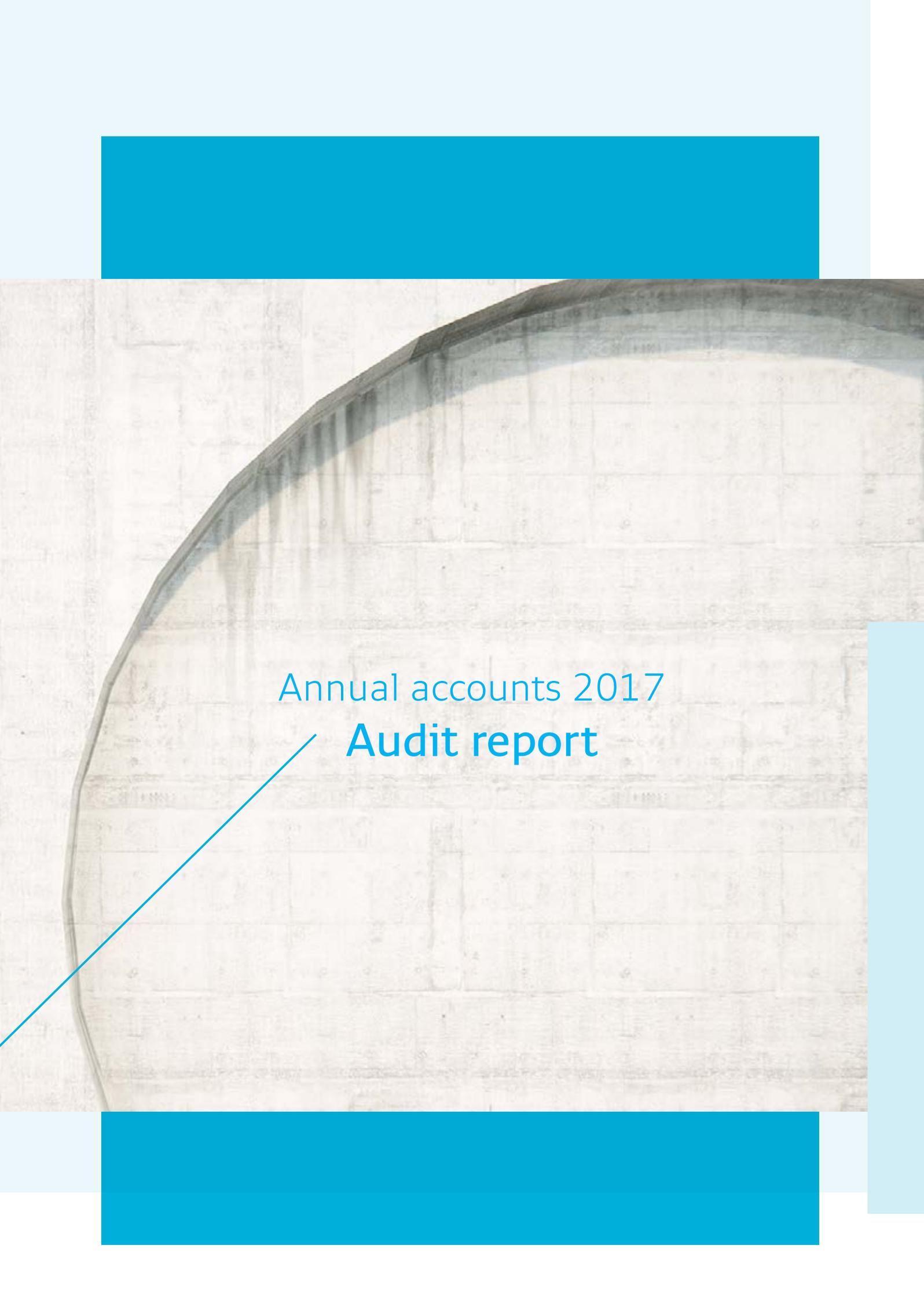




# **Cecabank, S.A.**

Financial Statements and  
Directors' Report for the Year Ended  
31 December 2017 together  
with the Auditors' Report



Annual accounts 2017  
**Audit report**

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

# **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**

To the Shareholders of Cecabank, S.A.:

## **Report on the Financial Statements**

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### **Opinion**

We have audited the financial statements of Cecabank, S.A. ("the Entity" or "the Bank"), which comprise the balance sheet as at 31 December 2017, Income Statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of Cecabank, S.A. as at 31 December 2017, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Entity (identified in Note 1.2 to the accompanying financial statements) and, in particular, with the accounting principles and rules contained therein.

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### **Basis for Opinion**

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

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

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

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### **Key Audit Matters**

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

## Classification and measurement of financial instruments

### Description

The criteria to be applied in measuring the Bank's financial instruments are determined by the classification of those instruments in the various different categories existing under the applicable regulations (see Notes 2.2 and 2.3 to the accompanying financial statements).

As indicated in Note 21 to the accompanying financial statements, the Bank has certain financial instruments, classified as Level 2 in the fair value hierarchy because they do not have a price that is quoted in an active market, the fair value of which is determined using valuation techniques that may take into consideration, among other factors, directly or indirectly observable market data and the use of complex valuation methods. In addition, changes in the circumstances considered, market events or changes in accounting regulations or standards may have a significant impact on the measurement of these instruments.

Accordingly, we considered the measurement of the financial instruments recognised at fair value that are classified by the Bank for measurement purposes as Level 2 in the fair value hierarchy to be a key matter in our audit, taking into consideration, in addition, the fact that these instruments represented a significant proportion of the Bank's total assets at 31 December 2017.

### Procedures applied in the audit

In order to address this key audit matter, our work included the performance of audit procedures to evaluate the operating effectiveness of the relevant controls established by the Bank in this area, as well as the conduct of substantive procedures, and, in relation to certain aspects of the work performed, we involved our internal specialists in the valuation of the aforementioned financial instruments.

In this connection, we performed, among others, the following audit procedures: (i) analysis of the methodology employed by the Bank to measure the financial instruments, verifying, on the basis of the nature of the instruments, the alignment of that methodology with accounting regulations, (ii) evaluation of the completeness of the data by obtaining confirmations, from a sample of third parties, of the position held by the Bank in those financial instruments, (iii) evaluation of the proper accounting and fair-value hierarchy classification of the financial instruments for measurement purposes, through a selective analysis of the characteristics of the financial instrument concerned, and (iv) replication of the calculations to verify the accuracy of the measurements made by the Bank.

Also, we evaluated whether the disclosures included in the notes to the accompanying financial statements in connection with the financial instruments are in conformity with those required by the applicable regulatory financial reporting framework.

## Third-party security custody and depository services

### Description

As indicated in Note 13.1 to the accompanying financial statements, the Bank has acquired the rights arising from certain businesses involving custody and depository services for securities entrusted by third parties. At 31 December 2017, the financial instruments managed by the Bank as a result of custody and depository service contracts then in force amounted to EUR 139,712 million, which, in accordance with the applicable regulations, were recognised off balance sheet by the Bank and are disclosed under "Transactions for the Account of Third Parties - Financial Instruments Entrusted by Third Parties" in Note 27.4 to the accompanying financial statements.

In 2017 the income obtained by the Bank from the provision of these services was the most significant item of the fee and commission income recognised by it (see Note 31). In addition, since these services are not devoid of operational risk, the Bank's directors considered it necessary, upon commencement thereof, to set up a provision to cover the related operational risk, which is recognised under "Provisions - Other Provisions" in the balance sheet in the accompanying financial statements (see Note 16.2 to the accompanying financial statements).

As a result of the foregoing, the implications of the provision of these services for the Bank's financial statements, taken as a whole, and its effects thereon were considered to be a key matter in our audit.

### Procedures applied in the audit

In order to address this key audit matter, our work included the performance of audit procedures to evaluate the operating effectiveness of the relevant controls established by the Bank in this area, as well as the conduct of substantive procedures including, inter alia: i) analytical procedures to evaluate the reasonableness of the evolution of the income from these services, ii) tests of details, on a selective basis, to evaluate whether the income from these services is consistent with the contractual terms and conditions established in the agreements in force and has been recognised in the appropriate accounting period, in accordance with the applicable recognition and measurement standards, and iii) substantive procedures to obtain third-party confirmation of the income from these services earned in the year.

Our audit procedures in relation to the provision set up to cover the aforementioned risk of these services comprised, among others: (i) analysis of the methodology employed by management in determining this provision, (ii) review of the communications with the supervisor in this regard, (iii) analysis of the reasonableness of the most significant judgements used by management, in order to evaluate the reasonableness of the estimates made, and (iv) analysis of the correct recognition and reasonableness of, and the changes in, the accounting provision recognised in this connection.

With respect to the recognition of the debt securities and equity instruments entrusted by third parties, our substantive audit procedures included, among others: i) analytical procedures to evaluate the reasonableness of the changes in the amount recognised for the financial instruments entrusted by third parties, ii) tests of details, on a selective basis, relating to depositor confirmations, and iii) substantive procedures relating to confirmations from custodians.

Also, we evaluated whether the disclosures included in the notes to the accompanying financial statements in connection with the provision of these services are in conformity with those required by the applicable regulatory financial reporting framework.

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## **Other Information: Directors' Report**

The other information comprises only the directors' report for 2017, the preparation of which is the responsibility of the Entity's directors and which does not form part of the financial statements.

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

- a) A specific level that applies to the non-financial information statement, which consists solely of checking that the aforementioned information has been provided in the directors' report, or, as the case may be, that the directors' report contains the corresponding reference to the separate report on non-financial information as provided for in the applicable legislation and, if this is not the case, reporting this fact.
- b) A general level applicable to the other information included in the directors' report, which consists of evaluating and reporting on whether the aforementioned information is consistent with the financial statements, based on the knowledge of the Entity obtained in the audit of those financial statements and excluding any information other than that obtained as evidence during the audit, as well as evaluating and reporting on whether the content and presentation of the directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have checked that the information described in section a) above is provided in the directors' report and that the other information in the directors' report is consistent with that contained in the financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

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

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

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

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

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## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

## **Report on Other Legal and Regulatory Requirements**

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### **Additional Report to the Audit Committee**

The opinion expressed in this report is consistent with the content of our additional report to the Entity's audit committee dated 20 February 2018.

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### **Engagement Period**

The Annual General Meeting held on 22 March 2017 appointed us as auditors for a period of one year from the year ended 31 December 2016.

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

DELOITTE, S.L.

Registered in ROAC under no. S0692

Miguel Ángel Bailón Martín

Registered in ROAC under no. 18040

20 February 2018

## Appendix I to our auditor's report

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

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### Auditor's Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use by the directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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



## Independent Financial Statements:

Balance sheets

Income statements

Statements of recognised income and expense

Statements of changes in total equity

Cash flow statements

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

## BALANCE SHEETS AS AT 31 DECEMBER 2017 AND 2016\* (Thousands of Euros)

ASSETS	2017	2016 (*)
<b>Cash, cash balances at central banks and other demand deposits (Note 5)</b>	<b>2,656,780</b>	<b>2,189,682</b>
<b>Financial assets held for trading (Note 6.1)</b>	<b>2,144,770</b>	<b>2,008,565</b>
Derivatives	1,031,402	1,250,753
Equity instruments	287,482	151,360
Debt securities	825,886	606,452
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	<i>37,971</i>	<i>11,855</i>
<b>Financial assets designated at fair value through profit or loss (Note 6.2)</b>	<b>256,876</b>	<b>1,066,436</b>
Equity instruments	-	-
Debt securities	-	-
Loans and advances	256,876	1,066,436
Central banks	-	-
Credit institutions	256,876	898,579
Customers	-	167,857
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	<i>69,228</i>	<i>104,405</i>
<b>Available-for-sale financial assets (Note 7)</b>	<b>1,772,261</b>	<b>3,321,501</b>
Equity instruments	38,716	67,519
Debt securities	1,733,545	3,253,982
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	<i>19,862</i>	<i>74,850</i>
<b>Loans and receivables (Note 8)</b>	<b>2,684,459</b>	<b>1,215,503</b>
Debt securities	21,731	21,874
Loans and advances	2,662,728	1,193,629
Central banks	-	-
Credit institutions	1,758,369	703,194
Customers	904,359	490,435
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	<i>154,343</i>	<i>2,247</i>
<b>Held-to-maturity investments</b>	<b>-</b>	<b>-</b>
<i>Memorandum item: loaned or advanced as collateral with right to sell or pledge</i>	<i>-</i>	<i>-</i>
<b>Derivatives - hedge accounting (Note 9)</b>	<b>1,723</b>	<b>511</b>
<b>Fair value changes of the hedged items in portfolio hedge of interest rate risk</b>	<b>-</b>	<b>-</b>
<b>Investments in subsidiaries, joint ventures and associates (Note 11)</b>	<b>416</b>	<b>416</b>
Group companies	416	416
Jointly controlled entities	-	-
Associates	-	-
<b>Tangible assets (Note 12)</b>	<b>52,413</b>	<b>53,195</b>
Property, plant and equipment	50,636	51,360
For own use	50,636	51,360
Leased out under an operating lease	-	-
Assigned to welfare projects	-	-
Investment property	1,777	1,835
Of which: leased out under an operating lease	-	-
<i>Memorandum item: acquired under a finance lease</i>	<i>-</i>	<i>-</i>
<b>Intangible assets</b>	<b>228,864</b>	<b>59,231</b>
Goodwill	-	-
Other intangible assets (Note 13)	228,864	59,231
<b>Tax assets (Note 20)</b>	<b>115,167</b>	<b>124,536</b>
Current tax assets	6,315	172
Deferred tax assets	108,852	124,364
<b>Other assets (Note 14.1)</b>	<b>42,944</b>	<b>34,003</b>
Insurance contracts linked to pensions	-	-
Inventories	-	-
Other	42,944	34,003
<b>Non-current assets and disposal groups classified as held for sale (Note 10)</b>	<b>3,787</b>	<b>18,110</b>
<b>TOTAL ASSETS</b>	<b>9,960,460</b>	<b>10,091,689</b>

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

The accompanying Notes 1 to 42 and Appendices I and II are an integral part of the balance sheet as at 31 December 2017.

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

**BALANCE SHEETS AS AT 31 DECEMBER 2017 AND 2016\***  
(Thousands of Euros)

LIABILITIES AND EQUITY	2017	2016 (*)
<b>LIABILITIES</b>		
<b>Financial liabilities held for trading (Note 6.1)</b>	<b>1,539,978</b>	<b>1,779,800</b>
Derivatives	1,146,041	1,346,084
Short positions	393,937	433,716
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
<b>Financial liabilities designated at fair value through profit or loss (Note 6.2)</b>	<b>-</b>	<b>185,902</b>
Deposits	-	185,902
Central banks	-	-
Credit institutions	-	38,510
Customers	-	147,392
Debt securities issued	-	-
Other financial liabilities	-	-
Memorandum item: subordinated liabilities	-	-
<b>Financial liabilities at amortised cost (Note 15)</b>	<b>7,032,621</b>	<b>6,730,043</b>
Deposits	6,392,278	6,103,405
Central banks	-	-
Credit institutions	857,982	968,553
Customers	5,534,296	5,144,852
Debt securities issued	-	-
Other financial liabilities	640,343	626,638
Memorandum item: subordinated liabilities	-	-
<b>Derivatives - hedge accounting (Note 9)</b>	<b>1,412</b>	<b>3,966</b>
<b>Fair value changes of the hedged items in portfolio hedge of interest rate risk</b>	<b>-</b>	<b>-</b>
<b>Liabilities under insurance and reinsurance contracts</b>	<b>-</b>	<b>-</b>
<b>Provisions (Note 16)</b>	<b>151,843</b>	<b>190,034</b>
Pensions and other post-employment defined benefit obligations	-	-
Other long-term employee benefits	63,229	76,166
Pending legal issues and tax litigation	14,888	19,663
Commitments and guarantees given	208	134
Other provisions	73,520	94,071
<b>Tax liabilities (Note 20)</b>	<b>26,188</b>	<b>44,956</b>
Current tax liabilities	-	12,033
Deferred tax liabilities	26,188	32,923
<b>Share capital repayable on demand</b>	<b>-</b>	<b>-</b>
<b>Other liabilities (Note 14.2)</b>	<b>150,739</b>	<b>137,680</b>
<b>Liabilities included in disposal groups classified as held for sale</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>8,902,781</b>	<b>9,072,381</b>
<b>EQUITY</b>		
<b>Shareholders' equity</b>	<b>1,012,621</b>	<b>958,490</b>
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)	211,653	154,393
(-) Treasury shares	-	-
Profit for the year (Note 3)	73,218	76,347
(-) Interim dividends	-	-
<b>Accumulated other comprehensive income</b>	<b>45,058</b>	<b>60,818</b>
Items that will not be reclassified to profit or loss	11,019	9,462
Actuarial gains or losses on defined benefit pension plans (Note 17)	11,019	9,462
Non-current assets and disposal groups classified as held for sale	-	-
Other valuation adjustments	-	-
Items that may be reclassified to profit or loss	34,039	51,356
Hedge of net investments in foreign operations	-	-
Foreign currency translation	-	-
Hedging derivatives. Cash flow hedges	-	-
Available-for-sale financial assets (Note 17)	34,039	44,112
Debt instruments	26,740	39,389
Equity instruments	7,299	4,723
Non-current assets and disposal groups classified as held for sale (Notes 10 & 17)	-	7,244
<b>TOTAL EQUITY</b>	<b>1,057,679</b>	<b>1,019,308</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>9,960,460</b>	<b>10,091,689</b>
<b>MEMORANDUM ITEMS</b>		
Guarantees given (Note 27.1)	67,214	65,223
Contingent commitments given (Note 27.3)	624,462	280,446

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

The accompanying Notes 1 to 42 and Appendices I and II are an integral part of the balance sheet as at 31 December 2017.

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

## INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016\* (Thousands of Euros)

	Income/(Expenses)	
	2017	2016 (*)
Interest income (Note 28)	89,641	111,106
Interest expenses (Note 29)	(71,242)	(73,133)
Expenses on share capital repayable on demand	-	-
<b>A) NET INTEREST INCOME</b>	<b>18,399</b>	<b>37,973</b>
Dividend income (Note 30)	39,474	33,841
Fee and commission income (Note 31)	136,286	134,269
Fee and commission expenses (Note 32)	(14,894)	(16,405)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net (Note 33)	10,639	16,511
Gains or losses on financial assets and liabilities held for trading, net (Note 33)	(33,606)	(38,902)
Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net (Note 33)	(18)	(290)
Gains or losses from hedge accounting, net (Note 33)	(4,788)	(4,802)
Exchange differences, net	65,393	51,178
Other operating income (Note 34)	50,768	43,602
Other operating expenses (Note 37)	(4,432)	(4,049)
<b>B) GROSS INCOME</b>	<b>263,201</b>	<b>253,926</b>
Administrative expenses	(130,636)	(115,182)
Staff costs (Note 35)	(51,193)	(51,689)
Other administrative expenses (Note 35)	(79,443)	(63,493)
Depreciation and amortisation charge (Note 39)	(56,834)	(55,588)
Provisions or reversal of provisions (Note 16)	16,909	3,236
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (Notes 22 & 38)	7,132	11,064
Financial assets measured at cost	-	-
Available-for-sale financial assets	302	(3,410)
Loans and receivables	6,030	14,474
Held-to-maturity investments	-	-
<b>C) PROFIT FROM OPERATIONS</b>	<b>99,772</b>	<b>97,456</b>
Impairment or reversal of impairment of investments in subsidiaries, joint ventures or associated	-	-
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)	2	(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)	8,382	10,894
<b>D) PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS</b>	<b>108,156</b>	<b>108,338</b>
Tax expense or income related to profit or loss from continuing operations (Note 20)	(34,938)	(31,991)
<b>E) PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS</b>	<b>73,218</b>	<b>76,347</b>
Profit or loss after tax from discontinued operations	-	-
<b>F) PROFIT FOR THE YEAR</b>	<b>73,218</b>	<b>76,347</b>

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

The accompanying Notes 1 to 42 and Appendices I and II are an integral part of the income statement for the year ended 31 December 2017.

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

## STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016\*

### I. STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016\* (Thousands of Euros)

	2017	2016 (*)
<b>PROFIT FOR THE YEAR</b>	<b>73,218</b>	<b>76,347</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>(15,760)</b>	<b>(8,683)</b>
<b>Items that will not be reclassified to profit or loss (Note 35)</b>	<b>1,557</b>	<b>1,202</b>
Actuarial gains or losses on defined benefit pension plans	2,224	1,717
Non-current assets and disposal groups held for sale	-	-
Other valuation adjustments	-	-
Income tax relating to items that will not be reclassified	(667)	(515)
<b>Items that may be reclassified to profit or loss</b>	<b>(17,317)</b>	<b>(9,885)</b>
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	(14,390)	(24,470)
Valuation gains or losses taken to equity	(3,754)	(5,579)
Transferred to profit or loss	(10,636)	(9,088)
Other reclassifications	-	(9,803)
Non-current assets and disposal groups held for sale (Note 10)	(10,349)	10,349
Valuation gains or losses taken to equity	(1,967)	546
Transferred to profit or loss	(8,382)	-
Other reclassifications	-	9,803
Income tax relating to items that may be reclassified to profit or loss	7,422	4,236
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>57,458</b>	<b>67,664</b>

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

The accompanying Notes 1 to 42 and Appendices I and II are an integral part of the statement of recognised income and expense for the year ended 31 December 2017.

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

## STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016\*

### II. STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016\*

(Thousands of Euros)

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

The accompanying Notes 1 to 42 and Appendices I and II are an integral part of the statement of changes in equity for the year ended 31 December 2017.

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

## STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016\*

### II. STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016\*

(Thousands of Euros)

2016 (\*):

Sources of equity changes	SHAREHOLDERS' EQUITY										Accumulated other comprehensive income (Note 17)	Total equity
	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		
<b>Opening balance (before restatement) at 1 January 2016 (*)</b>	<b>112,257</b>	<b>615,493</b>	-	-	-	-	<b>96,522</b>	-	<b>77,162</b>	-	<b>69,501</b>	<b>970,935</b>
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
<b>Opening balance at 1 January 2016 (*)</b>	<b>112,257</b>	<b>615,493</b>	-	-	-	-	<b>96,522</b>	-	<b>77,162</b>	-	<b>69,501</b>	<b>970,935</b>
<b>Total recognised income and expense</b>	-	-	-	-	-	-	-	-	<b>76,347</b>	-	<b>(8,683)</b>	<b>67,664</b>
<b>Other changes in equity</b>	-	-	-	-	-	-	<b>57,871</b>	-	<b>(77,162)</b>	-	-	<b>(19,291)</b>
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	-	-	-	-	-	-	57,871	-	(57,871)	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-
<b>Closing balance at 31 December 2016 (*)</b>	<b>112,257</b>	<b>615,493</b>	-	-	-	-	<b>154,393</b>	-	<b>76,347</b>	-	<b>60,818</b>	<b>1,019,308</b>

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

The accompanying Notes 1 to 42 and Appendices I and II are an integral part of the statement of changes in equity for the year ended 31 December 2017.

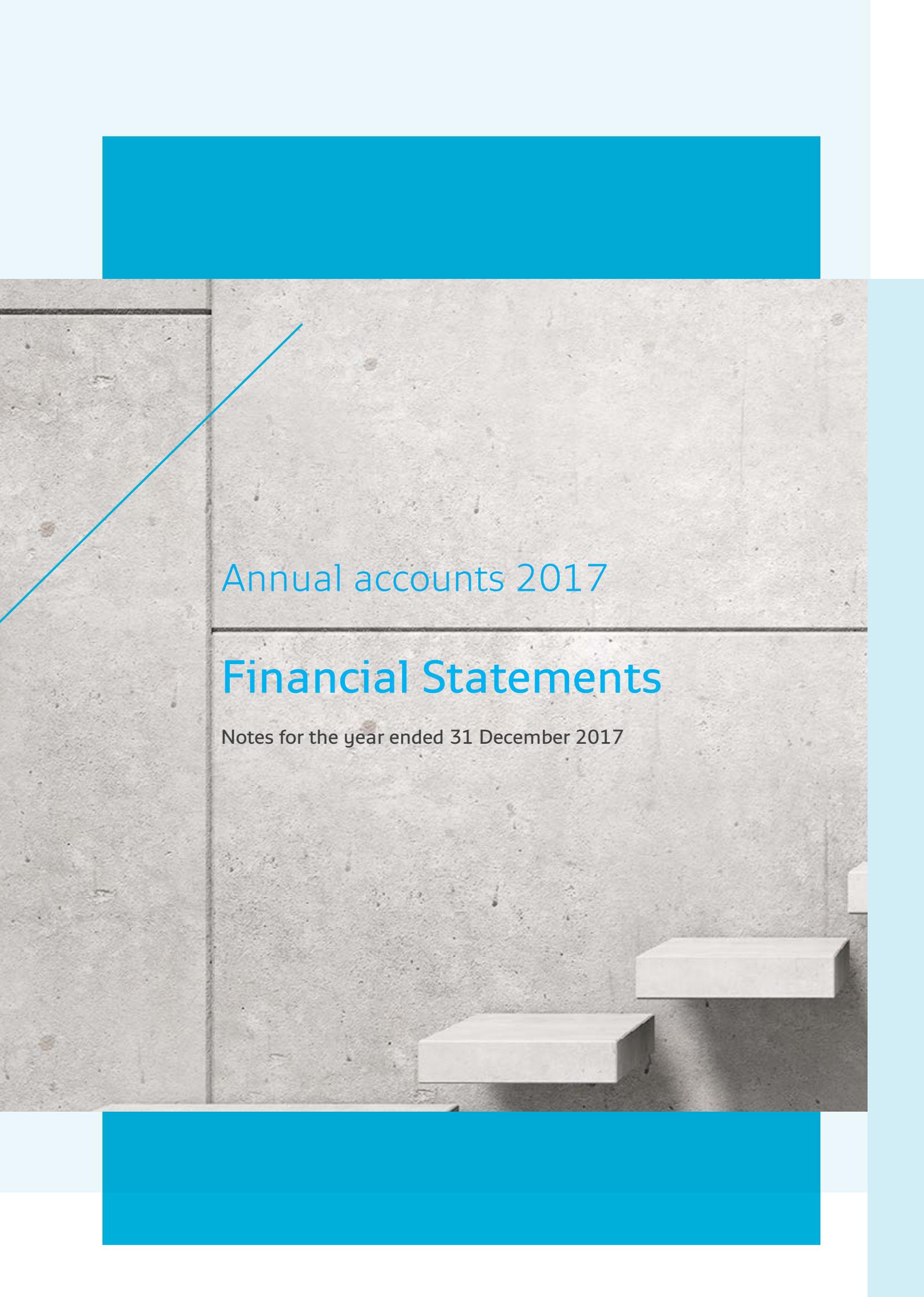
Translation of financial statements originally issued in Spanish and prepared in accordance with Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 42). In the event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

**STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016\***  
(Thousands of Euros)

	Proceeds / (Payments)	
	2017	2016 (*)
<b>A) CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>711,659</b>	<b>1,999,158</b>
Profit for the year	73,218	76,347
Adjustments made to obtain the cash flows from operating activities	113,854	202,826
Depreciation and amortisation charge	56,834	55,588
Other adjustments	57,020	147,238
<b>Net (increase)/decrease in operating assets</b>	<b>755,880</b>	<b>3,710,001</b>
Financial assets held for trading	(124,868)	502,304
Financial assets designated at fair value through profit or loss	809,542	1,661,621
Available-for-sale financial assets	1,521,149	847,721
Loans and receivables	(1,462,169)	682,224
Other operating assets	12,226	16,131
<b>Net increase/(decrease) in operating liabilities</b>	<b>(195,557)</b>	<b>(1,965,883)</b>
Financial liabilities held for trading	(239,822)	(493,334)
Financial liabilities designated at fair value through profit or loss	(185,902)	(924,006)
Financial liabilities at amortised cost	302,578	(526,901)
Other operating liabilities	(72,411)	(21,642)
Income tax recovered/(paid)	(35,736)	(24,133)
<b>B) CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(225,474)</b>	<b>(4,132)</b>
<b>Payments:</b>	<b>(225,474)</b>	<b>(30,647)</b>
Tangible assets	(2,225)	(2,629)
Intangible assets	(223,249)	(28,018)
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	-	-
<b>Proceeds:</b>	-	<b>26,515</b>
Tangible assets	-	-
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associates	-	-
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	-	-
<b>C) CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(19,087)</b>	<b>(19,291)</b>
<b>Payments:</b>	<b>(19,087)</b>	<b>(19,291)</b>
Dividends	(19,087)	(19,291)
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	-	-
Other payments related to financing activities	-	-
<b>Proceeds:</b>	-	-
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	-	-
Other proceeds related to financing activities	-	-
<b>D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	-	-
<b>E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)</b>	<b>467,098</b>	<b>1,975,735</b>
<b>F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,189,682</b>	<b>213,947</b>
<b>G) CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 5)</b>	<b>2,656,780</b>	<b>2,189,682</b>
<b>MEMORANDUM ITEMS</b>		
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 5)</b>		
Cash	94,860	101,710
Cash balances at central banks	2,468,451	1,877,695
Other demand deposits	93,469	210,277
Less: Bank overdrafts refundable on demand	-	-

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

The accompanying Notes 1 to 42 and Appendices I and II are an integral part of the statement of cash flows for the year ended 31 December 2017.



Annual accounts 2017

# Financial Statements

Notes for the year ended 31 December 2017

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

# Cecabank, S.A.

## Notes to the Financial Statements For the Year Ended 31 December 2017

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

#### 1.1. Introduction

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

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

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

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

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

- a) The develop of all type of activities, transactions and services inherent to the Banking business in general or related directly or indirectly with it and are allowed by the active legislation, including investment services and auxiliaries and those related with insurance mediation.
- b) Providing technological, administrative or assessing services to Public Administrations as to any other public or private entity.
- c) Acquisition, tenure and disposal of any real estate instrument.

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

#### 1.2. Basis of presentation of the financial statements

The Bank’s financial statements for the year 2017 are presented in accordance with the regulatory financial reporting framework applicable to the Bank, which is that established in Bank of Spain Circular 4/2004, to credit institutions, on public and confidential financial reporting rules and formats (the “Circular 4/2004”) and subsequent amendments. This Circular of the Bank of Spain constitutes the development and adaptation to the Spanish credit institutions of the International Financial Reporting Standards adopted by the European Union.

The Bank’s financial statements for the year 2017 have been prepared taking into account all the principles, accounting standards and valuation criteria of mandatory application, so that they present fairly the equity and financial position of the Bank as of 31 December 2017 and of the results of its operations and cash flows that have occurred in the financial year then ended, in accordance with the financial reporting framework mentioned in the previous paragraph, that is applicable and, in particular, with the principles and accounting criteria contained therein to which reference has been made in the previous paragraph.

The Bank’s financial statements for 2017 were formulated by the Board of Directors at its meeting held on 19 February 2018.

The Bank’s financial statements for 2016 were approved by the General Shareholders’ Meeting at its meeting held on March 22, 2017. The Bank’s financial statements for the year 2017 are pending approval by its General Meeting. However, the Bank’s Board of Directors understands that these annual accounts will be approved without significant changes.

### 1.3. Consolidation

The Bank is the head of a Group comprising various entities (see Note 2.1) and, as such, prepares consolidated financial statements with its subsidiaries. Per the content of the aforementioned consolidated financial statements, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, the total consolidated assets of the Bank and Subsidiaries ("the Cecabank Group") at the end of 2017 and 2016 amounted to EUR 9.963.209 thousand and EUR 10.094.415 thousand, respectively, consolidated equity amounted to EUR 1.059.363 thousand and EUR 1.020.992 thousand, respectively, and the consolidated net profit attributable to the Group for 2017 and 2016 amounted to EUR 73.219 thousand and EUR 76.399 thousand, respectively.

The Cecabank Group's condensed consolidated financial statements for 2017 and 2016 (the information for 2016 is presented in accordance with the new public financial statement formats in force since 2016 (see Note 1.4)) are as follows:

The condensed consolidated financial statements of the Cecabank Group for 2017 and 2016 are as follows:

Assets	Thousands of Euros	
	2017	2016
Cash, cash balances at central banks and other demand deposits	2,658,845	2,190,148
Financial assets held for trading	2,144,770	2,008,565
Financial assets designated at fair value through profit or loss	256,876	1,066,436
Available-for-sale financial assets	1,772,261	3,321,501
Loans and receivables	2,685,286	1,217,888
Derivatives - hedge accounting	1,723	511
Investments in subsidiaries, joint ventures and associates	-	-
Tangible assets	52,418	53,202
Intangible assets	229,061	59,426
Tax assets	115,205	124,571
Other assets	42,977	34,057
Non-current assets and disposal groups classified as held for sale	3,787	18,110
<b>Total Consolidated Assets</b>	<b>9,963,209</b>	<b>10,094,415</b>

Liabilities	Thousands of Euros	
	2017	2016
Financial liabilities held for trading	1,539,978	1,779,800
Financial liabilities designated at fair value through profit or loss	-	185,902
Financial Liabilities at Amortised Cost	7,033,114	6,730,645
Derivatives - hedge accounting	1,412	3,966
Provisions	151,843	190,034
Tax Liabilities	26,188	44,961
Other Liabilities	151,311	138,115
<b>Total Liabilities</b>	<b>8,903,846</b>	<b>9,073,423</b>
<b>Equity:</b>		
Shareholders' equity	1,013,882	959,753
Share Capital	112,257	112,257
Share Premium	615,493	615,493
Other Reserves	212,914	155,613
Profit for the year	73,218	76,390
Accumulated other comprehensive income	45,058	60,818
Minority interests [non-dominant shares]	423	421
<b>Total Consolidated Equity</b>	<b>1,059,363</b>	<b>1,020,992</b>
<b>Total Consolidated Equity and Liabilities</b>	<b>9,963,209</b>	<b>10,094,415</b>

Consolidated Income Statements for the year 2017 and 2016:

	Thousands of Euros	
	2017	2016
Interest income	89,648	111,134
Interest expenses	(71,253)	(73,148)
<b>Net Interest Income</b>	<b>18,395</b>	<b>37,986</b>
Dividend income	39,474	33,841
Fee and commission income	136,384	134,561
Fee and commission expenses	(14,941)	(15,603)
Gains or losses on derecognition of assets and liabilities	10,639	16,511
Gains or losses on financial assets and liabilities held for trading, net	(33,606)	(38,902)
Gains and losses on financial assets designated at fair value through profit or loss, net	(18)	(290)
Gains or losses from hedge accounting, net	(4,798)	(4,802)
Exchange differences, net	65,393	51,178
Other operating income	57,562	50,168
Other operating expenses	(9,984)	(9,570)
<b>Gross Income</b>	<b>264,500</b>	<b>255,078</b>
Administrative expenses	(131,885)	(116,501)
Depreciation and amortisation charge	(56,881)	(55,622)
Provisions or reversal of provisions	16,909	3,476
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	7,132	11,088
<b>Profit from Operations</b>	<b>99,775</b>	<b>97,519</b>
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	-	-
Gains or losses on derecognition of non-financial assets and investments, net	2	(12)
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	8,382	10,894
<b>Profit or loss before tax from continuing operations</b>	<b>108,159</b>	<b>108,401</b>
Tax expense or income related to profit or loss from continuing operations	(34,940)	(32,002)
<b>Profit or loss after tax from continuing operations</b>	<b>73,219</b>	<b>76,399</b>
Profit or loss after tax from discontinued operations	-	-
<b>Profit for the year</b>	<b>73,219</b>	<b>76,399</b>
Attributable to dominant shares	73,218	76,390
Attributable to minority interests (non-dominant shares)	1	9

Consolidated Statements of Recognized Income and Expense for the years 2017 and 2016:

	Thousands of Euros	
	2017	2016
<b>Profit for the year</b>	<b>73,219</b>	<b>76,399</b>
<b>Other comprehensive income</b>	<b>(15,760)</b>	<b>(8,683)</b>
Items that will not be reclassified to profit or loss	1,557	1,202
Items that will not be reclassified to profit or loss	(17,317)	(9,885)
Available-for-sale financial assets	(14,390)	(24,470)
Non-current assets and disposal groups held for sale	(10,349)	10,349
Income tax relating to items that may be reclassified to profit or loss	7,422	4,236
<b>Total comprehensive consolidated income for the year</b>	<b>57,459</b>	<b>67,716</b>
Attributable to Minority interests (non-dominant shares)	1	9
Attributable to Dominant shares	57,458	67,707

Consolidated statements of changes in equity for the years 2016 and 2017:

Sources of equity changes	Thousands of Euros													
	Consolidated statements of changes in equity													
	Equity										Accumulated other comprehensive income	Minority interests		Total Equity
	Share capital	Share premium	Equity instruments issued other than capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit for the year attributable to the owners of the dominant	(-) Interim dividends		Accumulated other comprehensive income	Accumulated other comprehensive income	
<b>Opening balance (before restatement) at 1 January 2016</b>	112,257	615,493	-	-	-	-	99,219	-	75,681	-	69,501	-	504	972,655
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Opening balance at 1 January 2016</b>	112,257	615,493	-	-	-	-	99,219	-	75,681	-	69,501	-	504	972,655
<b>Total recognized income and expense</b>	-	-	-	-	-	-	-	-	76,390	-	(8,683)	-	9	67,716
<b>Other changes in equity</b>	-	-	-	-	-	-	56,394	-	(75,681)	-	-	-	(92)	(19,379)
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members)	-	-	-	-	-	-	-	-	(19,291)	-	-	-	-	(19,291)
Transfers among components of equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	56,394	-	(56,390)	-	-	-	(4)	-
Other increase or decrease in equity	-	-	-	-	-	-	(1,320)	-	-	-	-	-	(88)	(88)
<b>Closing balance at 31 December 2016</b>	112,257	615,493	-	-	-	-	155,613	-	76,390	-	60,818	-	421	1,020,992
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Opening balance at 1 January 2017</b>	112,257	615,493	-	-	-	-	155,613	-	76,390	-	60,818	-	421	1,020,992
<b>Total comprehensive income for the year</b>	-	-	-	-	-	-	-	-	73,218	-	(15,760)	-	1	57,459
<b>Other changes in equity</b>	-	-	-	-	-	-	57,301	-	(76,390)	-	-	-	1	(19,088)
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration of members)	-	-	-	-	-	-	-	-	(19,089)	-	-	-	-	(19,089)
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	-	57,301	-	(57,301)	-	-	-	1	1
Equity increase or decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Closing balance at 31 December 2017</b>	112,257	615,493	-	-	-	-	212,914	-	73,218	-	45,058	-	423	1,059,363

**Consolidated Cash Flow Statements for the years 2017 and 2016:**

Consolidated Cash Flow Statements	Thousands of Euros	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	<b>713,309</b>	<b>1,997,480</b>
Profit for the year	73,219	76,399
Adjustments made to obtain the cash flows from operating activities	113,911	202,762
<b>Net (increase)/decrease in operating assets</b>	<b>757,457</b>	<b>3,711,146</b>
Financial assets held for trading	(124,868)	502,304
Financial assets designated at fair value through profit or loss	809,542	1,661,621
Available-for-sale financial assets	1,521,149	847,721
Loans and receivables	(1,460,611)	683,407
Other operating assets	12,245	16,093
<b>Net increase/(decrease) in operating liabilities</b>	<b>(195,537)</b>	<b>(1,968,694)</b>
Financial liabilities held for trading	(239,822)	(493,335)
Financial liabilities designated at fair value through profit or loss	(185,902)	(924,006)
Financial liabilities at amortised cost	(302,469)	(529,522)
Other operating liabilities	(72,282)	(21,831)
<b>Income tax recovered/(paid)</b>	<b>(35,741)</b>	<b>(24,133)</b>
<b>Total cash flows from operating activities</b>	<b>(225,525)</b>	<b>1,997,480</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments	(225,525)	(30,721)
Proceeds	-	26,515
<b>Total cash flows from investing activities</b>	<b>(225,525)</b>	<b>(4,206)</b>
Payments	(19,087)	(19,291)
Proceeds	-	-
<b>Total cash flows from financing activities</b>	<b>(19,087)</b>	<b>(19,291)</b>
<b>Effect of foreign Exchange rate changes</b>	<b>-</b>	<b>-</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>468,697</b>	<b>1,973,983</b>
Cash and cash equivalents at beginning of year	2,190,148	216,165
Cash and cash equivalents at end of year	2,658,845	2,190,148

**1.4. Information relating to 2016**

For comparison purposes only the Bank's directors present, in addition to the figures for 2016 for each item in the balance sheet, income statement, statement of changes in equity, statement of cash flows and notes to the financial statements, the figures for 2017, obtained in accordance with Bank of Spain Circular 4/2004 and successive amendments thereto in force. Consequently, the figures for 2016 included in these notes to the financial statements are presented for comparison purposes only and do not constitute the Bank's statutory financial statements for 2016.

**1.5. Responsibility for the information and use of estimates**

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

In the preparation of the Bank's financial statements for 2017 estimates were made by its Directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following

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

Although these estimates were made on the basis of the best information available at 31 December 2017 and at the date on which these financial statements were authorized for issue on the events analyzed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Any required changes in accounting estimates would be applied prospectively in accordance with the applicable standards, recognizing the effects of the change in estimates in the income statements for the years in question.

## **1.6. Agency agreements**

Neither at 2017 nor 2016 year-end nor at any other time during those years did the Bank have any agency agreements in force, as defined in Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

## **1.7. Investments in the share capital of credit institutions**

At of 31 December 2017 and 2016 the Bank did not hold any ownership interests of 5% or more in the share capital or voting power of any Spanish or foreign credit institutions.

## **1.8. Environmental impact**

In view of the business activities carried on by the Bank, it does not have a significant impact on the environment. Therefore, it was not necessary to recognise any provision in this connection the Bank's financial statements for 2017 do not contain any disclosures on environmental issues.

## **1.9. Capital management objectives, policies and processes**

On 2 February 2016, Bank of Spain Circular 2/2014, 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) n° 575/2013, which is applicable to the Bank (see Note 1.12).

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

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

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

- i) A Common Equity Tier 1 capital ratio of 4.5% (CET 1).
- ii) A Tier 1 capital ratio (Common Equity plus Additional Tier 1) of 6%.
- iii) A total capital ratio of 8%.

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

- Hold a capital conservation buffer, which was established as Common Equity Tier 1 capital equal to 0.625% of RWAs for 2016, and which will increase by an additional 0.625% each year until it reaches the required level of 2.5% of RWAs in 2019.
- Maintenance of a countercyclical capital buffer that may reach up to 2.5% of Common Equity Tier 1 (CET1) capital. As from 2016, the level to be reached by this buffer will be set by the Spanish authorities, on the basis of macroeconomic variables, whenever an excessive growth in credit which could be a source of systemic risk is observed. In this regard, at the end of 2016, the Bank of Spain announced that the countercyclical capital buffer for Spanish financial institutions would be maintained at 0% of credit risk exposure in Spain in the fourth quarter of 2016. The Bank has not been designated a systemically important institution, and a capital buffer has not been established for it for 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 19 December 2017, the Bank of Spain notified Cecabank, S.A. that, in general, it complied with the requirements of Article 92.1 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, and set the Bank the requirement of maintaining a consolidated and individual TSCR ratio of no less than 10.10%. The Bank and its Group are also subject to the overall capital requirement (OCR) defined in Title 1.2 of the EBA/GL/2014/13 Guidelines which, in addition to the TSCR ratio, includes the combined capital buffer requirement, as defined in Articles 43 et seq of Law 10/2014 and the related implementing regulations. This requirement comes into force from 1 January 2018. On 22 December 2016, 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 9.63%. At 31 December 2017, and throughout 2017, the Bank and the Group's individual and consolidated CET1 ratios exceeded the requirement for that year.

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

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

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

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

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

The Bank's Common Equity Tier 1 capital and its CET 1 plus Additional Tier 1 capital amounted to EUR 724,332 thousand at 31 December 2017, in both cases (31 December 2016: EUR 834,325 thousand), while total capital amounted to EUR 725,969 thousand at that date (31 December 2016: EUR 836,102 thousand), representing capital adequacy ratios of 27.43% and 27.49%, respectively, at 31 December 2017 (31 December 2016: 31.87% and 31.94%), above the minimum requirements.

Common Equity Tier 1 capital includes mainly share capital, share premium, the Bank'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.

### **1.10. Minimum reserve ratio**

Throughout the 2017 and 2016 years, the Bank met the minimum reserve ratio required by the applicable legislation.

At 31 December 2017 and 2016 the Bank's cash balance with Bank of Spain for these purposes amounted to EUR 2,468,451 and 1,877,695 thousand (see Note 5). This ratio is calculated on the basis of the daily ending balance held by the Bank in this account during the required period.

### **1.11. Deposit guarantee fund**

#### **a) Deposit guarantee fund**

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

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

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

- i. Two-fifths to be paid within 20 business days from 31 December 2013. The Bank paid this contribution, which amounted to EUR 7 thousand, in the first few days of January 2014.
- ii. Three-fifths to be paid within seven years in accordance with the payment schedule established by the Managing Committee of the DGF. In this regard, based on the contribution schedule approved by the Managing Committee of the DGF, the Bank paid one-seventh of this second tranche on 30 September 2014, and on 17 December 2014 the Managing Committee approved payment of the remainder of the second tranche in two disbursements on 30 June 2015 and 2016 (which were settled on that date).

Additionally, at its meeting on 19 July 2017, the Managing Committee of the DGF, as provided for in Article 6 of Royal Decree-Law 16/2011, of 14 October, creating the DGF, and in Article 3 of Royal Decree 2606/1996, of 20 December, on deposit guarantee funds for credit institutions, established the annual contributions of DGF member institutions for 2017 as follows:

- a) The total annual contribution of all member institutions to the deposit guarantee compartment of the DGF was set at 1.8/1,000 of the calculation base -i.e. the guaranteed monetary deposits, as indicated in Article 3.2-a) of Royal Decree 2606/1996- existing at 30 June 2017, and the contribution of each institution was calculated on the basis of the amount of the guaranteed deposits and its risk profile.
- b) The annual contribution of member institutions to the securities guarantee compartment of the DGF was set at 2/1,000 of the calculation base -i.e. 5% of the quoted price of the guaranteed securities, as indicated in Article 3.2-b) of Royal Decree 2606/1996- existing at 31 December 2017.

The expense incurred for the contributions accruing to the DGF during 2017 amounted to EUR 66 thousand (2016: EUR 51 thousand), which were recognized under "Other Operating Expenses" in the accompanying income statement (see Note 37).

#### **b) Single Resolution Fund**

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

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

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

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

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

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

The expense incurred by the Bank in relation to the contribution made to the SRF in 2017 totalled EUR 4,322 thousand (2016: EUR 3.835 thousand) and is recognized under "Other Operating Expenses" in the accompanying income statement (see Note 37).

### **1.12 Main regulatory changes during the period from 1 January to 31 December 2017**

A summary of the main Bank of Spain Circulars issued in 2017 is as follows:

*Bank of Spain Circular 1/2017, of 30 June, amending Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register.*

The main aim of this Circular, which amends and supplements Bank of Spain Circular 1/2013, is to gather, through the Central Credit Register, the information that the Bank of Spain has to request from the reporting agents in order to transmit it to the European Central Bank, as provided for in Regulation (EU) 867/2016 of the European Central Bank, of 18 May, on the collection of granular credit and credit risk data. 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 2/2017, of 28 July, amending Bank of Spain Circular 5/2015, of 30 September, which implements the specific accounting rules for Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.*

*The aim of this Circular is to include in Bank of Spain Circular 5/2015 the new criteria for the recognition of impairment for accounting purposes, as well as to specify the rules for the reversal of impairment. 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 3/2017, of 24 October, amending Bank of Spain Circular 2/2014, of 31 January, to credit institutions on the exercise of various regulatory options contained in 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 amending Regulation (EU) No 648/2012.*

*Bank of Spain Circular 3/2017 amends certain aspects of Bank of Spain Circular 2/2014 in view of the attribution of competencies on significant entities to the European Central Bank (ECB) by means of Regulation 1024/2013. Firstly, it amends the scope of application of the aforementioned Regulation, and secondly, it adjusts the content of the Circular to the guidance issued by the ECB. Lastly, the regulations relating to transitional options, that were applicable until 2017, are withdrawn. 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 4/2017, of 27 November, to credit institutions on public and confidential financial reporting rules and formats*

The main purpose of Circular 4/2017 is to adapt the accounting system of Spanish credit institutions to the changes in European accounting legislation stemming from the adoption of two new International Financial Reporting Standards (IFRSs): (i) IFRS 9, which will amend the methods of accounting for financial instruments; and (ii) IFRS 15, which will amend revenue recognition methods.

The three most noteworthy changes introduced by this Circular that emanate directly from the amendments to IFRS 9 are as follows:

- (i) The change in the financial asset impairment model, which ceases to be based on incurred losses and is now based on expected losses. The purpose of this change is to obtain a more appropriate measurement of the assets and an earlier recognition of any impairment losses thereon.
- (ii) The amendment of the portfolios in which financial assets are classified for measurement purposes.
  - The measurement criteria applicable to debt instruments will be determined on the basis of their contractual characteristics and the business model.
  - Investments in equity instruments must be measured at fair value through profit or loss.
  - Other financial assets must be recognised in the balance sheet at fair value.
- (iii) The regulation of hedge accounting. An accounting scheme is introduced additional to the one existing to date, and the latter will continue to exist during the transitional period. The new rules eliminate quantitative tests of effectiveness, requiring instead a monitoring and adjustment of the coverage ratio.

As regards the changes arising from the adaptation to IFRS 15, mention must be made of the new recognition model for revenue other than revenue from financial instruments, which will be based on: (i) identifying the performance obligations in the contract, (ii) determining the transaction price, (iii) allocating the transaction price to the performance obligations in the contract and (iv) recognising revenue when (or as) the entity satisfies a performance obligation (by transferring control of the promised assets).

Lastly, the Circular introduces certain changes to institutions' public and confidential financial reporting formats. The date of entry into force of the Circular is 1 January 2018. Following is a description of the impacts that the Bank expects for 2018.

#### *IFRS 9, Financial instruments*

The objective of IFRS 9, Financial Instruments, which, together with the other International Financial Reporting Standards, advocates greater transparency and comparability of financial information, easier access to capital markets and the use of a common financial language on a global level, is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

The new standard comprises three clearly differentiated phases or sections:

- Classification and measurement of financial assets and financial liabilities.
- Impairment methodology.
- Hedge accounting.

In 2017 the Entity carried out an IFRS 9 implementation project with the participation of all the areas affected and the involvement of its senior management.

The main requirements of IFRS 9 are as follows:

a) Classification and measurement of financial instruments

An entity's financial assets are classified on the basis of the business model within which they are managed and their contractual cash flow characteristics.

The classification of financial assets (both those held to collect cash flows and those held to collect cash flows and to be sold) depends on the assessment of:

- the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset; and
- whether the financial asset gives rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding ("the SPPI test").

Based on the results of the aforementioned assessments, the financial asset will be recognised:

- At amortised cost;
- At fair value through profit or loss (FVTPL); or
- At fair value through other comprehensive income (FVTOCI).

A financial instrument shall be measured at amortised cost if both of the following conditions are met: (i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("the SPPI test").

Financial assets shall be classified as at fair value through other comprehensive income if both of the following conditions are met: (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be classified as at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income as indicated above.

In 2017 the Entity completed its business model assessment for all the portfolios of financial instruments that make up its consolidated assets and which are within the scope of IFRS 9. The facts and circumstances considered, in consultation with the respective portfolio managers, were those which define the current approach/strategy used for each of the portfolios within the scope of application.

These business models have certain associated risk controls which, included in the Entity's manuals, are in conformity with its risk appetite framework.

For the purpose of conducting the SPPI test, the Entity segmented the financial instrument portfolio, distinguishing as a separate category the standardised-contract products that are classified on the basis of a framework contract and which are subject to a pre-defined product control system that prevents any changes to the contract's standard terms and conditions. Lastly, all non-standardised financial instruments are grouped together into families of products with similar characteristics and are reviewed manually and on a case-by-case basis.

As a result of the aforementioned analyses, certain financial assets in the markets area will cease to be accounted for at amortised cost on the basis of the characteristics of the business model within which they are held, and will henceforth be accounted

for at fair value through profit or loss. The Entity does not expect any significant impact on the carrying amount of these assets, since the differences between their amortised cost and their fair value are scantily material.

With regard to the classification and measurement of financial liabilities, IFRS 9 will not give rise to any changes in the current accounting treatment.

b) Impairment of financial assets

IFRS 9 establishes different scopes for the classification and impairment of financial instruments.

The financial assets and off-balance-sheet exposures subject to the impairment assessment requirements are as follows:

- Debt instruments recognised at amortised cost.
- Debt instruments recognised at fair value through other comprehensive income (equity).
- Accounts receivable (both trade receivables and lease receivables).
- Irrevocable loan commitments and financial guarantee contracts not recognised at fair value through profit or loss.

The main change introduced by IFRS 9 is the expected loss (EL)-based impairment model, which, replacing the previous “incurred loss” approach, includes forecasts of future economic conditions (forward-looking approach).

EL is estimated based on the expected credit losses associated with the probability of default over the next twelve months, unless there has been a significant increase in credit risk since initial recognition, in which case the estimate must consider the probability of default over the expected life of the financial instrument.

The financial instruments are grouped together into three categories, based on the impairment methodology applied, as follows:

- Stage 1 – Standard exposure: on initial recognition, a loss allowance is estimated based on 12-month expected credit losses.
- Stage 2 – Standard exposure under special monitoring: if the credit risk on a financial instrument has increased significantly since initial recognition, an allowance must be recognised at an amount equal to the lifetime expected credit losses of that instrument.
- Stage 3 – Non-performing exposure: the lifetime expected credit losses of non-performing loans must be recognised. In addition, interest revenue must be recognised on the amortised cost of the loan net of impairment losses.

The assessment of whether credit risk has increased significantly must be based on reasonable and supportable information, that is available without undue cost or effort and that is indicative of significant increases in credit risk since initial recognition, and must reflect historical, current and forward-looking information.

The definitions established for assessing significant increases in credit risk were in line with the following criteria:

- Identification of assets with low credit risk.
- Qualitative criteria: the Entity has established a series of alerts which enable it to detect whether an instrument has experienced a significant increase in credit risk.

In any case, instruments with respect to which any of the following circumstances have arisen are classified as Stage 2:

- The instruments have payments more than 30 days past due.
- They are subject to special monitoring by the Risk units because they show signs of deterioration of their credit quality, even though there is no objective evidence of impairment.
- Refinancing or restructuring transactions that do not show any evidence of impairment.

*Methodology for calculating expected losses*

The Entity has decided to continue to use the practical expedients for the calculation of the expected losses on its portfolio, in accordance with the requirements of Bank of Spain Circular 4/2017.

Possible impairment losses on these assets resulting from materialisation of the insolvency risk of the obligors (credit risk) are assessed as follows:

- Individually, for all debt instruments classified as non-performing exposures and which are significant since they exceed a certain threshold, or for which specific information is available on the borrower that makes individual assessment possible.
- Collectively, by applying the alternative solutions contained in Annex IX of Bank of Spain Circular 4/2004, amended by Circular 4/2017, calculated on the basis of the parameters established by the Bank of Spain, using industry information and its accumulated experience, for estimating specific allowances for non-performing exposures that are below the aforementioned threshold and general allowances for standard exposures.

c) Hedge accounting

The general hedge accounting requirements under IFRS 9 entail the following changes: (i) greater flexibility through the possibility of designating non-derivative instruments as hedging instruments, and components of an instrument as hedged items, and (ii) the existence of a revocable option, exercisable at any time, to designate credit exposures hedged using credit derivatives as measured at fair value through profit or loss.

The IASB (and, by transposition, the Bank of Spain) allows entities to continue to apply IAS 39 for hedge accounting in 2018, and they do not have to decide whether or not to apply IFRS 9 until the standard on macro hedging (currently still at the discussion phase) is adopted. Based on the analysis performed, the Entity elected to continue to apply IAS 39 to its hedge accounting at the date of implementation of IFRS 9.

d) Estimated impact of adopting IFRS 9

On the basis of all the foregoing, and taking into consideration data relating to 31 December 2017, the Entity assessed the estimated impact of initial application of IFRS 9 on its financial statements. In this regard, its best estimate is that these changes may result in a potential 21-basis point increase in CET 1 and a potential increase of approximately EUR 1,170 thousand in impairment losses as compared with those currently recognised.

At the date of preparation of these financial statements, the tax effect of the aforementioned adjustments was uncertain, and its was taken as an assumption that non-monetisable deferred tax assets would be generated.

The aforementioned impacts are based on the assessments conducted up to the date of preparation of these financial statements and represent the best estimate of the most significant effects; however, they do not constitute a complete and accurate detail of all the impacts relating to 1 January 2018.

*Bank of Spain Circular 5/2017, of 22 December, amending Circular 5/2012, of 27 June, to credit institutions and payment service providers on transparency of banking services and responsibility in the granting of loans.*

This Circular introduces changes to the method for calculating the 12-month interbank benchmark rate (Euribor). The entry into force of this Circular did not have a material impact on the Bank or the information shown in these financial statements.

## 2. Accounting policies and measurement bases

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

### 2.1. Investments

#### 2.1.1. Subsidiaries

"Subsidiaries" are defined as entities over which the Bank has the capacity to exercise control; control is, in general but not exclusively, presumed to exist when the 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.

Pursuant to Bank of Spain Circular 4/2004, one entity is deemed to control another when:

- i. it has the power to direct its relevant activities, namely, those that significantly affect its returns, as a result of a legal requirement, a bylaw or an agreement;
- ii. it has the current ability, i.e. the practical ability, to exercise the rights to use that power in order to affect its returns; and
- iii. it is exposed, or has rights, to variable returns from its involvement with the investee.

Participations in subsidiaries are presented in these financial statements recorded under the heading "Investments - Subsidiaries" of the balance sheet and valued at cost of acquisition, net of any impairment that they may have suffered, which are estimated and recorded, if any, in accordance with Note 2.3.4.

Any dividends accrued in the year on these investments are recognized under "Income from Equity Instruments" in the income statement at the time of their accrual, which is when the Bank's right to receive them arises, i.e. the date they are declared by the related governing bodies of the investee.

Appendix I to these notes to the financial statements contains relevant information on these companies at 31 December 2017 and 2016.

The only change in 2016 in these companies with respect to the equity interest held in them by the Bank relates to the increase in the ownership interest in the share capital of Trionis, S.C.R.L., without any additional investments having been made, due to the departure of certain shareholders from the company in 2016 and the retirement of their shares following their departure, which increased the Bank's percentage of ownership to 78.62% at 31 December 2016.

#### 2.1.2. Jointly controlled entities

"Jointly controlled entities" are defined as 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.

Interests in jointly controlled entities are presented in these financial statements, if they exist, recorded under the heading "Investments - Jointly controlled entities" of the balance sheet and valued at cost of acquisition, net of any impairment that they may have suffered, which are estimated and recorded in appropriate, as explained in Note 2.3.4.

The dividends earned in 2017 on these ownership interests are recognized, where applicable, under "Dividend Income" in the income statement.

At 31 December 2017 and 2016, the Bank did not have any investments in jointly controlled entities.

### 2.1.3. Associates

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

Dividends accrued in the year for these investments are recorded, as the case may be, under “Dividend income” in the income statement.

At 31 December 2017 and 2016, the Bank did not have any investments in associates.

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

### 2.2.1. Initial recognition of financial instruments

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

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

### 2.2.2. Derecognition of financial instruments

A financial asset is derecognized when:

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

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

### 2.2.3. Fair value and amortized cost of financial instruments

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

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

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

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

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

The Bank has contracted at 31 December 2017 and 2016 various operations of reverse repurchase loan (see Notes 6.2.1 and 8), at which expiration, it must give the debtor back the ownership of the securities that constitute its guarantee. At 31 December 2017 and 2016 the fair value of the securities received as collateral in these transactions repos does not differ significantly from the carrying value of these operations.

The effective interest rate is the discount rate that exactly matches the initial amount of a financial instrument to the present value of all its estimated cash flows of all kinds during its remaining life, disregarding future losses from credit risk. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition or arrangement date adjusted, where applicable, for the fees, premiums, discounts and transaction costs that, pursuant to the Circular 4/2004, 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 Bank's 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 Circular 4/2004.
  - **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 Circular 4/2004.
  - **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 Bank 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 management's investment management or assessment strategy, as established in the Circular 4/2004.

Note 6 contains details on the financial instruments classified in this category.

- **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 Bank 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 Circular 4/2004.

Note 6 contains details on the financial instruments classified in this category.

Financial instruments designated at fair value through profit or loss are initially measured at fair value. Following acquisition, instruments classified in this category continue to be measured at fair value at the end of each reporting period, and any changes in that fair value are recognized under "Gains or Losses on Financial Assets and Liabilities Designated at Fair Value through Profit or Loss, Net" and "Gains or Losses on Financial Assets and Liabilities Held for Trading, Net" in the income statement, according to the category in which the financial instruments giving rise to them are classified, except for changes in fair value due to the interest accrued on the financial instrument, other than interest from trading, which are recognized under "Interest Income", "Interest Expenses" or "Dividend Income" in the income statement, based on the nature thereof. The interest relating to debt instruments included in this category is calculated using the effective interest method.

Notwithstanding the foregoing, financial derivatives that have as their underlying 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 Bank (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 which, in the absence of evidence to the contrary, coincides with the amount paid to acquire them, 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 the Circular 4/2004, must be allocated to the 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 Bank 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 balance sheet at their amortized cost.

The interest accrued on these assets, which is calculated using the effective interest method, is recognized under "Interest Income" in the income statement. Exchange differences on assets included in this portfolio denominated in currencies other than the euro are recognized as explained in Note 2.7. Any impairment losses on these assets are recognized as explained in Note 2.3.

- **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 Bank 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 income statement by the effective interest method, except for those relating to financial assets with no fixed maturity, which are recognized in the 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 financial statements at cost, net of any impairment loss, calculated as detailed in Note 2.3.

Changes in the fair value of available-for-sale financial assets relating to accrued interest or dividends are recognized under “Interest and Similar Income” (calculated using the effective interest method) and “Income from Equity Instruments” in the income statement, respectively. Any impairment losses on these instruments are recognized as described in Note 2.3. Exchange differences on financial assets denominated in currencies other than the euro are recognized as explained in Note 2.7.

The other changes in their fair value from their acquisition are recognized in the balance sheet under “Equity – Accumulated Other Comprehensive Income – Items that May Be Reclassified to Profit or Loss – Available-for-Sale Financial Assets” until the financial asset is derecognized, at which time the balance recorded under this heading is taken to the income statement and recognized under “Gains or Losses on Derecognition of Financial Assets and Liabilities Not Measured at Fair Value through Profit or Loss, Net” or, in the case of equity instruments that were strategic investments for the Bank, under “Profit or Loss from Non-Current Assets and Disposal Groups Classified as Held for Sale Not Qualifying as Discontinued Operations”.

Available-for-sale financial assets are classified, broken down according to their nature, under “Available-for-Sale Financial Assets” on the asset side of the balance sheet, except for those that meet the requirements to be classified as non-current assets held for sale, which are recognized under “Non-Current Assets and Disposal Groups Classified as Held for Sale” on the asset side of the balance sheet.

- **Held-to-maturity investments:** pursuant to current legislation, this category includes 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 income statement by the effective interest method as defined in Circular 4/2004. 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 income statement. Exchange differences on assets included in this portfolio denominated in currencies other than the euro are recognized as set forth in Note 2.7. Any impairment losses on these securities are recognized as explained in Note 2.3.

At 31 December 2017 and 2016 and throughout such exercises the Bank did not have any financial instruments classified in this category.

- **Financial liabilities at amortized cost:** this category includes the Bank’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 income statement by the effective interest method (as defined by Circular 4/2004) through maturity. Subsequently, these financial liabilities are measured at amortized cost calculated using the effective interest method as defined in Circular 4/2004.

The interest accrued on these values, which is calculated using the effective interest method, is recognized under “Interest Expenses” in the income statement. Exchange differences on liabilities included in this category denominated in currencies other than the euro are recognized as set forth in Note 2.7.

### 2.3. Impairment of financial assets

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

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

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognized impairment losses is recognized in the income statement for the period in which the impairment is reversed or reduced, except for the reversal of previously recognized impairment losses charged to the income statement in relation to equity instruments classified as available for sale, which are not recognized in the income statement but rather under “Accumulated Other Comprehensive Income - Items that May Be Reclassified to Profit or Loss - Available-for-Sale Financial Assets or Non-Current Assets and Disposal Groups Classified as Held for Sale”, depending on how the instruments are classified in the balance sheet (see Note 2.2).

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

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

#### 2.3.1. Debt instruments carried at amortized cost

The amount of an impairment loss incurred on a debt instrument carried at amortized cost is equal to the positive difference between its carrying amount and the present value of its discounted at the effective interest rate of the transactions. 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 debt instruments classified as non-performing exposures and which are significant since they exceed a certain threshold or for which there is specific information on the borrower enabling them to be assessed.
- Collectively, by applying the alternative solutions contained in Annex IX of Bank of Spain Circular 4/2004, amended by Circular 4/2016, calculated on the basis of the parameters established by the Bank of Spain, using industry information and its accumulated experience, for estimating specific allowances for non-performing exposures that are below the aforementioned threshold and general allowances for standard exposures (allowance for incurred but not reported or identified losses of a group of transactions with shared characteristics and classified as standard risk by the Bank in accordance with Bank of Spain Circular 4/2004).

The amount of the impairment losses on debt instruments carried at amortised cost or, as the case may be, their subsequent reversal, estimated in accordance with the aforementioned criteria, is recognized under “Impairment or Reversal of Impairment on Financial Assets not Measured at Fair Value through Profit or Loss – Loans and Receivables” and “Impairment or Reversal of Impairment on Financial Assets Not Measured at Fair Value through Profit or Loss – Held-to-Maturity Investments”, according to the category of financial instruments in which such debt instruments are classified (see Note 2.2).

Pursuant to Bank of Spain Circular 4/2004, the Bank interrupts the accrual of interest in the income statement for debt instruments classified as doubtful, applying in this case, the cash criteria for recognition.

### *2.3.2. 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 amortisation) and their fair value less any impairment loss previously recognized in the 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 Bank for calculating such losses is the same as the method used for debt instruments carried at amortized cost explained in section 2.3.1 above.

When there is objective evidence that the losses arising on measurement of these assets are due to impairment, they are removed from the Bank’s equity item “Accumulated Other Comprehensive Income – Items that May Be Reclassified to Profit or Loss – Available-for-Sale Financial Assets – Debt Instruments” and they are recognized for their cumulative amount under “Impairment or Reversal of Impairment on Financial Assets Not Measured at Fair Value through Profit or Loss – Available-for-Sale Financial Assets” in the income statement. If all or part of the impairment losses are subsequently reversed, the reversed amount is recognized in the 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 – Available-for-Sale Financial Assets”.

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

### *2.3.3. 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 income statement.

The criteria used to recognise impairment losses on equity instruments classified as available for sale are similar to those applicable to “debt instruments” classified in this category (as explained in Note 2.3.2), except for the fact that any reversal of previously recognized impairment losses is recognized in equity under “Accumulated Other Comprehensive Income – Items that May Be Reclassified to Profit or Loss – Available-for-Sale Financial Assets – Equity Instruments” instead of in the income statement.

### *2.3.4. Investment in Group companies, jointly controlled entities and associates*

The estimation and accounting of impairment losses on investments in group companies, joint ventures and associates, which, for the purposes of the preparation of these financial statements, are not considered “financial instruments”, is performed as follows: when according to Circular 4/2004, there is evidence of impairment of the aforementioned holdings, the amount of such impairment is estimated as the negative difference between the recoverable amount (calculated as the greater of the fair value of the participation as less estimated costs necessary to sell and its value in use is defined as the present value of the flows to be received from participation in dividends and related to its sale or disposal by other means) and book value. Impairment losses on these investments and any reversals of such losses are recorded as a charge or credit, respectively, under the heading “Impairment losses on other assets (net) - Other assets” in the income statement.

### 2.3.5. 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 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.

## 2.4. Transfers and derecognition of financial assets and liabilities

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

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

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

- If the Bank retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, securitization of financial assets in which a subordinated debt or another type of credit enhancement is retained that absorbs substantially all the credit losses on the securitized assets, and other similar cases-, the transferred financial asset is not derecognized and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognized, without offsetting:
  - An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortized cost, or, if the aforementioned requirements for classification of other financial liabilities at fair value through profit or loss are met, at fair value, in accordance with the aforementioned criteria for this type of financial liability (see Note 2.2.4).
  - The income from the transferred financial asset not derecognized and any expense incurred on the new financial liability.
- If the Bank neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitization of financial assets in which the transferor retains a subordinated debt or another type of credit enhancement for a portion of the transferred asset, and other similar cases- the following distinction is made:
  - Si la entidad cedente no retiene el control del activo financiero transferido: en este caso, se da de baja del balance el activo transferido y se reconoce cualquier derecho u obligación retenido o creado como consecuencia de la transferencia.
  - If the transferor does not retain control, the transferred financial asset is derecognized and any right or obligation retained or created in the transfer is recognized.
  - If the transferor retains control, it continues to recognize the transferred financial asset in the balance sheet for an amount equal to its exposure to changes in value and recognizes a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained, if the transferred asset is measured at amortized cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

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

Notes 27.2 and 27.5 contain a summary of the main circumstances of the principal transfers of assets outstanding at 2017 and 2016 years-end which did not lead to the derecognition of the related assets (securities lending transactions and repurchase agreements under non-optional repurchase agreements).

## 2.5. Reclassification between financial instrument portfolios

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 2017 and 2016, the Bank 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 Bank’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 outside the situations provided for in the standard (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 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 2017 and 2016.

- d) With the introduction of Bank of Spain Circular 6/2008, of 1 July 2008, 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 occurs:

- a) In rare or exceptional circumstances, unless the assets could have been included in the loans from the date they were arranged. 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 for the classification as 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 during 2017 and 2016.

## **2.6. Hedge accounting and mitigation of risk**

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

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

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

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

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

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

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

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

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

## 2.7. Foreign currency transactions

### 2.7.1. Functional currency

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

The detail, by currency and item, of the equivalent value in thousands of euros of the main asset and liability balances denominated in foreign currencies in the balance sheets at 31 December 2017 and 2016 is as follows:

Nature of Foreign Currency Balances:	Equivalent Value in Thousands of Euros (*)			
	2017		2016	
	Assets	Liabilities	Assets	Liabilities
<b>Amount in US Dollars-</b>				
Cash	39,865	-	39,244	-
Financial assets held for trading	12,927	642	738	2,109
Available for sale financial assets	34,560	-	40,099	-
Demand deposits and loans and receivables	298,947	-	288,234	-
Financial liabilities at amortized cost	-	1,316,105	-	1,092,580
Other assets and liabilities	1,334	1,334	-	-
	<b>387,633</b>	<b>1,318,081</b>	<b>368,315</b>	<b>1,094,689</b>
<b>Balances in Japanese yen-</b>				
Cash	610	-	669	-
Demand deposits and loans and receivables	35,042	-	43,445	-
Financial liabilities at amortized cost	-	234,938	-	207,776
	<b>35,652</b>	<b>234,938</b>	<b>44,114</b>	<b>207,776</b>
<b>Balances in pounds sterling-</b>				
Cash	27,217	-	30,508	-
Financial assets/liabilities held for trading	278	140	875	449
Loans and receivables	37,121	-	68,276	-
Financial liabilities at amortized cost	-	87,867	-	188,838
Other assets and liabilities	95	184	84	189
	<b>64,711</b>	<b>88,191</b>	<b>99,743</b>	<b>189,476</b>
<b>Balances in Swiss francs-</b>				
Cash	3,900	-	4,194	-
Demand deposits and loans and receivables	5,117	-	7,193	-
Financial liabilities at amortized cost	-	53,369	-	92,294
Other assets and liabilities	-	8	-	9
	<b>9,017</b>	<b>53,377</b>	<b>11,387</b>	<b>92,303</b>
<b>Balances in Norwegian krone-</b>				
Cash	789	-	1,078	-
Demand deposits and loans and receivables	2,460	-	3,153	-
Financial liabilities at amortized cost	-	15,815	-	33,831
Other assets and liabilities	-	-	2	2
	<b>3,249</b>	<b>15,815</b>	<b>4,233</b>	<b>33,833</b>
<b>Balances in Swedish krone-</b>				
Cash	584	-	972	-
Demand deposits and loans and receivables	1,786	-	3,302	-
Financial liabilities at amortized cost	-	19,484	-	47,218
	<b>2,370</b>	<b>19,484</b>	<b>4,274</b>	<b>47,218</b>
<b>Balances in other currencies-</b>				
Cash	7,375	-	8,523	-
Demand deposits and loans and receivables	25,698	-	24,319	-
Financial liabilities at amortized cost	-	53,081	-	106,008
	<b>33,073</b>	<b>53,081</b>	<b>32,842</b>	<b>106,008</b>
<b>Total foreign currency balances</b>	<b>535,705</b>	<b>1,782,967</b>	<b>564,908</b>	<b>1,771,303</b>

(\*) Equivalent value calculated by applying the exchange rates at 31 December 2017 and 2016 respectively.

In addition to the currency positions recognized in the balance sheets at 31 December 2017 and 2016 shown in the preceding table, the Bank recognized various currency derivatives and forward foreign currency contracts which are used to manage the exchange rate risk to which it is exposed and which should be considered together with the balance sheets positions for a correct understanding of the Bank's exposure to such risks (see Note 23).

### 2.7.2. Translation of foreign currency balances

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

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

### 2.7.3. Exchange rates

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

### 2.7.4. Recognition of exchange differences

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

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

## **2.8. Recognition of income and expenses**

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

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

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

### 2.8.2. Commissions, fees and similar items

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

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

### *2.8.3. Non-finance income and expenses*

These are recognized for accounting purposes on an accrual basis.

## **2.9. Offsetting**

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

For these purposes, the presentation in these financial statements, in accordance with Bank of Spain Circular 4/2004 and subsequent amendments thereto, of financial assets net of impairment losses or valuation adjustments is not considered to be offsetting.

## **2.10. Financial guarantees and provisions for financial guarantees**

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

In accordance with the Circular 4/2004, the financial guarantees provided by the Bank are treated as financial instruments.

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

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

## **2.11. Staff costs**

### *2.11.1. Short-term remuneration*

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

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

### *2.11.2. Post-employment obligations*

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

The Bank has set up an external fund known as the “Cecabank Employees’ Pension Plan”, which is managed by Caser Pensiones, Entidad Gestora de Fondos de Pensiones, S.A. 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 and for early retirees) and two defined contribution retirement benefit subplans (for employees hired by the CECA prior to 30 May 1986 who opted to convert their benefits into defined contribution benefits, as described below, for employees hired by the Ceca or Bank after 29 May 1986, and for early retirees in this group). The pension plan also includes the obligations to the beneficiaries of the benefits.

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

At 31 December 2017, the Bank’s total accrued pension obligations to current and retired employees amounted to EUR 188,352 thousand (31 December 2016: EUR 193,664 thousand). These obligations are covered by the aforementioned external pension fund and insurance policies, the fair value of which was EUR 195,859 thousand at 31 December 2017 (31 December 2016: EUR 198,835 thousand) and, therefore, the Bank recognized a “Net Asset for Pensions” of EUR 7,507 thousand under “Other Assets” in the accompanying balance sheet as at 31 December 2017 (31 December 2016: EUR 5,171 thousand) (see Note 14.1).

[Recognition of defined benefit post-employment obligations.](#)

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

- a) The legal obligations assumed by the Bank are taken into consideration according to the formal terms and conditions of the plans.
- b) The present value of the legal obligations is calculated at the reporting date by a qualified actuary, together with the fair value estimates of the plan assets.
- c) The fair value of the plan assets, which, pursuant to the requirements established in the applicable legislation, meet this definition at the reporting date, is deducted from the present value of the obligations.
- d) If the figure obtained in c) above is positive, it is recognized as a provision for defined benefit pension funds.
- e) If the figure obtained in c) above is negative, it is recognized as “other assets”. The Bank measures, where appropriate, the recognized asset at the lower of the following two values:
  - i. The figure obtained in c) above, in absolute terms.
  - ii. The present value of the cash flows available to the Bank, in the form of plan redemptions or reductions in future contributions to the plan.
- f) Any changes in the recognized provision are recognized when they occur in line with d) above (or, where appropriate, the asset according to c) above) as follows:
  - i. In the income statement: the cost of the services rendered by the employees, those referring to both the year in question and prior years not recognized in those years, the net interest on the provision, and the gain or loss arising upon settlement. When these amounts are to form part of the cost of an asset pursuant to applicable legislation, these amounts are recognized additionally as “other operating income”.
  - ii. In the statement of changes in equity: the new measurements of the provision as a result of the actuarial gains and losses, of the return on any plan assets not included in the net interest on the provision, and changes in the present value of the asset as a result of the changes in the present of the cash flows available to the entity, which are not included in the net interest on the provision. The amounts recognized in the statement of changes in equity should not be reclassified to the income statement in a future year.

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

The defined contribution obligations are generally recognized at the amount of the contributions made by the Bank in the year in exchange for the services rendered by employees in the same period, and are recognized as an expense for the year. In 2017 the portion of the accrued expense for the contributions to the external pension fund relating to defined contribution obligations amounted to EUR 898 thousand (2016: EUR 843 thousand), and this amount was recognized under "Administrative Expenses - Staff Costs" in the income statement. In addition, in 2017 EUR 133 thousand were reimbursed relating to the insurance policy of an employee who left the Bank's employ in 2016 (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"). One of these is a single premium policy. The premiums on these policies and on other insurance policies covering pension obligations and other obligations to employees totalled EUR 427 thousand in 2017 (2016: EUR 358 thousand), and this amount was recognized under "Administrative Expenses - Staff Costs" in the income statement (see Note 35).

### 2.11.3. Other long-term benefits

#### 2.11.3.1. Early retirements

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

#### [Pre-retirement agreements prior to 2013](#)

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

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

#### [Pre-retirement agreements in 2013](#)

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

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

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

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

#### Pre-retirement agreements in 2015

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

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

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

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

The obligations in respect of future salaries, future social security costs and 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 63,229 thousand (EUR 76,166 thousand at 31 December 2016), which was recognized under "Provisions - Other long-term employee benefits" in the 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 and 29 October 2013 and 18 December 2015. At 31 December 2017 and 2016 this provision covered the full amount of the Bank's early retirement obligations at those dates.

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

#### *2.11.3.2. Death and disability*

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

#### *2.11.3.3. Long-service bonuses*

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

The amount paid in this connection at 2017 year-end was approximately EUR 20 thousand (2016 year-end: EUR 55 thousand) and is recognized under "Administrative Expenses - Staff Costs" in the accompanying income statement.

*2.11.4. Termination benefits*

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

At 31 December 2017, no expense was recognized in this connection. The termination benefit expense charged to profit or loss in 2016, amounting to EUR 2,722 thousand, is recognized under "Administrative Expenses - Staff Costs" in the statement of profit or loss (see Note 35).

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

*2.11.5. Loans to employees*

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

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

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

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

**2.12. Income tax**

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

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

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

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

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

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

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

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

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

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

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

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% (70% in 2017 and following years) (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 recognized by the Bank in the financial statements of 2016 and 2017.

**2.13. Tangible assets**

*2.13.1. Property, plant and equipment for own use*

Property, plant and equipment for own use includes the assets that are held by the Bank for present or future administrative purposes other than those of welfare projects, or for the production or supply of goods and services and which are expected to be used for more than one year. Property, plant and equipment for own use is recognized at acquisition cost in the balance sheet as it is defined in the Circular 4/2004, less:

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

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

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

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

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

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

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

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

Assets for own use that cease to be used for that purpose and for which management has prepared a sales plan that is expected to be executed within twelve months and meet the other requirements established in Bank of Spain Circular 4/2004 are classified as non-current assets held for sale and begin to be measured in accordance with the criteria indicated in Note 2.16.

*2.13.2. Investment property*

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

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

**2.14. Intangible assets**

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

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

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

*2.14.1. Other intangible assets*

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

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

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

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

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

### **2.15. Provisions and contingent liabilities**

The Bank's financial statements include all the material provisions, if any, required to cover certain risks to which the Bank is exposed as a result of its business activity and which are certain as to their nature but uncertain as to their amount and/or timing. Contingent liabilities are not recognized in the financial statements, but rather are disclosed, if there, in accordance with the requirements of the Thirty-Seventh Standard of Bank of Spain Circular 4/2004.

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

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

#### *2.15.1. Litigation and/ or claims in process*

At the end of 2017 and 2016 certain litigation and claims were in process against the Bank arising from the ordinary course of its operations. The Bank's legal advisers and directors consider that the outcome of the litigation and claims will not have a material effect on the financial statements for the years in which they are settled.

### **2.16. Non-current assets held for sale and Disposal Groups Classified as Held for Sale**

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

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

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

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

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

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

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

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

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

## 2.17. Cash flow statements

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

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

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

## 2.18. Statement of changes in equity

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

### 2.18.1. Statement of recognized income and expense

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

Accordingly, this statement presents:

- a) Profit for the year.
- b) The net amount of income and expense recognized directly in equity as “items that will not be reclassified into income”.
- c) The net amount of income and expenses recognized directly in equity as “items that can be reclassified into income”.
- d) The “total comprehensive income for the year” calculated as the sum of (a+b+c).

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

- a) Valuation gains or losses taken to equity: includes the amount of the income, net of the expenses incurred in the year, recognized directly in equity. The amounts recognized in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of assets or liabilities or are reclassified to another line item.
- b) Amounts transferred to the income statement: includes the amount of the revaluation gains and losses previously recognized in equity, albeit in the same year, which are recognized in the income statement.
- c) Amount transferred to the initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognized in equity, albeit in the same year, which are recognized in the initial carrying amount of the assets or liabilities as a result of cash flow hedges.

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

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

#### 2.18.2. Statement of changes in total equity

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

a) Effects of corrections of errors and changes in accounting policies: this category includes the adjustments to equity arising as a result of the retrospective restatement of the financial statements in accordance with Rules Eight and Nineteen of Bank of Spain Circular 4/2004, making a distinction between the adjustments that relate to changes in accounting policies and those relating to corrections of errors.

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

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

### 3. Distribution of the Bank's profit

The proposal for the distribution of the Bank's net profit for the year 2017, which the Board of Directors will propose to the General Shareholders' Meeting for approval, is as follows (the balances for the year 2016 are presented exclusively for comparative purposes):

	Thousands of Euros	
	2017	2016
Legal Reserve	-	579
Voluntary Reserve	54,914	56,681
Dividends	18,304	19,087
<b>Net profit for the year</b>	<b>73,218</b>	<b>76,347</b>

### 4. Remuneration of directors and senior executives

#### 4.1. Remuneration of the Board of Directors

The members of the Bank's Board of Directors receive an attendance fee for attending meetings of the Board and its support committees, the detail of which for 2017 and 2016 is shown in the following table:

	Thousands of Euros	
	2017	2016
Aguirre Loaso, José Luis	14	23
Azuaga Moreno, Manuel	24	33
Cánovas Páez, Joaquín	18	15
Carbó Valverde, Santiago	37	29
García Lurueña, Francisco Javier	26	23
Gómez de Miguel, José Manuel	46	40
Iglesias Ruiz, Víctor Manuel	6	-
Massanell Lavilla, Antonio	18	15
Méndez Álvarez-Cedrón, José María	18	15
Motellón García, Carmen	30	-
Ruano Mochales, Jesús	22	18
Salaverria Monfort, Julia	41	40
Sarro Álvarez, María del Mar	41	39
<b>Total</b>	<b>341</b>	<b>290</b>

The aforementioned attendance fees for 2017 relating to the participation of an executive of Bankia, S.A. on the Board of Directors of Cecabank, S.A. amounted to EUR 21 thousand and were paid directly to that entity (2016: EUR 22 thousand).

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

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

For the purposes of the preparation of these financial statements, the Bank's senior executives were considered to be the members of the Management Committee, which comprised 8 members at 31 December 2017, (8 members at 31 December 2016).

The remuneration earned by the senior executives and the members of the Board of Directors in their capacity as executives of the Bank totalled EUR 2,827 thousand in 2017, of which EUR 2,545 thousand related to short-term remuneration for 2017 and EUR 282 thousand related to post-employment benefits (EUR 3,665 thousand in 2016, of which EUR 3,364 thousand related to short-term remuneration and EUR 301 thousand to post-employment benefits).

At 31 December 2017, the vested pension rights of the senior executives and Board members in their capacity as Bank executives amounted to EUR 3,057 thousand (31 December 2016: EUR 2,695 thousand).

With regard to former members of the Entity's Board of Directors and senior executives (three people at 31 December 2017 and at 31 December 2016 three people), in 2017 they received EUR 776 thousand in pre-retirement benefits (2016: EUR 388 thousand). At 31 December 2017, these persons' vested rights amounted to EUR 124 thousand (2016: 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).

At 31 December 2017, there were pension commitments, similar obligations or other long term commitments assumed by the Bank with current or former members of the Board of Directors and senior executives amounting to EUR 1,757 thousand (at 31 December 2016 there was no long term commitment related to this item).

#### **4.3. Transparency obligations**

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

On three occasions in 2017 certain directors of Cecabank, S.A. refrained from participating in the discussions and voting on certain matters at the relevant Board meetings, the detail being as follows: on one occasion the commercial contract of a member of the Board was being discussed, and the director concerned left the room; and on another two occasions a financial transaction was being approved, and in each case one of the Board members left the meeting.

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.

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

The breakdown of the balance of “Cash, Cash Balances at Central Banks and other demand deposits” in the balances sheet at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Cash	94,860	101,710
Balances with the Bank of Spain (Note 1.10) (*)	2,468,451	1,877,695
Other demand deposits	93,469	210,277
	<b>2,656,780</b>	<b>2,189,682</b>

(\*)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 2017 and 2016. 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 2017 and 2016 represents the maximum exposure to credit risk assumed by the Bank in relation to these instruments.

At 31 December 2017 and 2016, there were no assets with uncollected past-due amounts or impaired classified under “Cash, Cash Balances at Central Banks and other demand deposits”.

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

### 6.1. Financial instruments held for trading

#### 6.1.1. Financial assets and liabilities held for trading - Breakdown

Following is a detail of the balances of “Financial Assets/Liabilities Held for Trading” in the balances sheets at 31 December 2017 and 2016:

	Thousands of Euros			
	Asset balances		Liability balances	
	2017	2016	2017	2016
Debt securities	825,886	606,452	-	-
Equity instruments	287,482	151,360	-	-
Trading derivatives-				
Derivatives traded in organized markets	122	3,923	46	3,680
OTC derivatives	1,031,280	1,246,830	1,145,995	1,342,404
Short positions	-	-	393,937	433,716
	<b>2,144,770</b>	<b>2,008,565</b>	<b>1,539,978</b>	<b>1,779,800</b>

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

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

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

Following is a breakdown, by type of risk, of the fair value of the trading derivatives arranged by the Bank and of their notional amount (on the basis of which the future payments and collections on these derivatives are calculated) at 31 December 2017 and 2016:

	Thousands of Euros					
	2017			2016		
	Fair Value		Notional Amount	Fair Value		Notional Amount
	Asset Balances	Liability Balances		Asset Balances	Liability Balances	
Interest rate risk	945,520	1,032,588	41,777,855	1,197,431	1,299,699	52,793,447
Foreign currency risk	85,760	110,915	4,595,635	49,399	42,629	2,080,265
Share price risk	122	46	350,487	3,923	3,756	400,249
Credit risk	-	2,492	20,000	-	-	-
	<b>1,031,402</b>	<b>1,146,041</b>	<b>46,743,977</b>	<b>1,250,753</b>	<b>1,346,084</b>	<b>55,273,961</b>

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

6.1.3. Financial liabilities held for trading - Short positions

The detail, by type of transaction, of the balance of this item in the balance sheets at 31 December 2017 and 2016, is as follows:

	Thousands of Euros	
	2017	2016
<b>Classification:</b>		
For securities lending- Equity instruments	-	1,630
Overdrafts on disposals-repurchase agreement		
Debt securities	393,937	432,086
	<b>393,937</b>	<b>433,716</b>

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

**6.2. Financial asset and liability instruments at fair value through profit or loss**

6.2.1. Financial assets at fair value through profit or loss

This heading shares listed in organised markets reverse repurchase agreements arranged by the Bank 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 balance sheets at 31 December 2017 and 2016 is as follows:

	Thousand of Euros	
	2017	2016
<b>Loans and advances to credit institutions-</b>		
Reverse repurchase agreements	256,932	898,690
Valuation adjustments-		
Accrued interest	(66)	(132)
Valuation gains or losses	10	21
	(56)	(111)
	<b>256,876</b>	<b>898,579</b>
<b>Loans and advances to customers-</b>		
Reverse repurchase agreements	-	167,898
Valuation adjustments-		
Accrued interest	-	(42)
Valuation gains or losses	-	1
	-	(41)
	-	167,857
	<b>256,876</b>	<b>1,066,436</b>

The changes in 2017 with respect to 2016 were due to the amounts that matured in 2017.

Note 22 includes information on the Bank's exposure to credit risk at 31 December 2017 and 2016 associated with these financial instruments other than equity instruments .

Note 21 discloses information on the fair value of these financial instruments at 31 December 2017 and 2016. Note 23 provides information on the exposure to market risk of these financial instruments. Note 25 includes information about the exposure to interest rates.

Note 24 contains information on the liquidity risk associated with the financial instruments owned by the Bank at 31 December 2017 and 2016, 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 2017 and 2016.

#### 6.2.2. Financial liabilities at fair value through profit or loss

This heading includes repurchase agreements arranged by the Bank 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 balance sheets at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
<b>Deposits from credit institutions-</b>		
Repurchase agreements with credit institutions	-	38,516
Valuation adjustments-		
Accrued interest	-	6
	-	(6)
	-	<b>38,510</b>
<b>Customer deposits-</b>		
Repurchase agreements with other sectors resident in Spain	-	147,419
Valuation adjustments-		
Accrued interest	-	(22)
Valuation gains or losses	-	(5)
	-	27
	-	<b>147,392</b>
	-	<b>185,902</b>

The changes in 2017 with respect to 2016 were due to the amounts that matured in 2017.

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 which does not differ significantly from the amount that would be payable by the Bank 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 2017 and 2016. 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.

## 7. Available-for-sale financial assets

Following is a detail of the balances of “Available-for-Sale Financial Assets” in the balance sheets at 31 December 2017 and 2016:

	Thousands of Euros	
	2017	2016
<b>Debt securities-</b>		
Spanish public sector securities	813,028	2,112,610
Of which:		
Treasury bills	150,266	855,658
Government debt securities	662,762	1,256,952
Securities of other Public agencies	557,832	651,458
Other securities	306,709	410,510
	<b>1,677,569</b>	<b>3,174,578</b>
<b>Valuation adjustments-</b>		
Accrued interest	19,408	21,853
Valuation gains or losses and other	37,670	58,955
Impairment losses	(1,102)	(1,404)
	<b>55,976</b>	<b>79,404</b>
	<b>1,733,545</b>	<b>3,253,982</b>
<b>Equity instruments-</b>		
Shares quoted in organized markets	25,557	67,283
Shares not quoted in organized markets	34,376	34,376
	<b>59,933</b>	<b>101,659</b>
<b>Valuation adjustments-</b>		
Valuation gains or losses and other	10,477	6,966
Impairment losses	(31,694)	(41,106)
	<b>(21,217)</b>	<b>(34,140)</b>
	<b>38,716</b>	<b>67,519</b>
	<b>1,772,261</b>	<b>3,321,501</b>

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

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

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

Note 24 shows information on the exposure to liquidity risk, which includes information on the term maturity of these financial assets at 31 December 2017 and 2016. Note 26 includes information on the concentration risk associated to these financial assets.

## 8. Loans and receivables

Following is a detail of the financial assets included in “Loans and Receivables” in the balance sheets at 31 December 2017 and 2016:

	Thousands of Euros	
	2017	2016
<b>Debt instruments-</b>		
Debt securities issued by Spanish public sector	-	1,600
Non-performing assets	50,984	54,452
	50,984	56,052
Valuation adjustments-		
Impairment losses	(29,253)	(34,231)
Accrued interest	-	53
	(29,253)	(34,178)
	<b>21,731</b>	<b>21,874</b>
<b>Loans and advances to credit institutions-</b>		
Time deposits	32,652	56,608
Other accounts	400,455	491,888
Reverse repurchase agreements	968,241	6,642
Other financial assets	357,380	148,175
Non-performing assets	78	146
	1,758,806	703,459
Valuation adjustments-		
Impairment losses	(79)	(149)
Accrued interest	(358)	(116)
	(437)	(265)
	<b>1,758,369</b>	<b>703,194</b>
<b>Loans and advances to customers-</b>		
Deposits for futures transactions and other security provided	284,650	418,119
Unsettled stock exchange transactions	82	-
Mortgage loans	46,143	45,174
Credits and loans with personal guarantee	175,877	31,299
Other assets	430	41
Reverse repurchase agreements	382,419	-
Non-performing assets	55,498	55,390
	945,099	550,023
Valuation adjustments-		
Impairment losses	(54,893)	(59,655)
Acquisition premium	13,563	-
Accrued interest	590	67
	(40,740)	(59,588)
	<b>904,359</b>	<b>490,435</b>
	<b>2,684,459</b>	<b>1,215,503</b>

Note 22 provides certain relevant information on the credit risk, at 31 December 2017 and 2016, of the financial assets included in this category. In Note 21 there is information about the fair value of included in this category of financial assets at 31 December 2017 and 2016.

Note 23 discloses certain relevant information on the market risk relating to the financial assets included in this financial instrument category at 31 December 2017 and 2016.

Note 24 contains information on the liquidity risk associated with the Bank’s financial instruments at 31 December 2017 and 2016, including information on the terms to maturity at those dates of the financial assets included in this category.

Note 25 includes information on the interest rate risk. Note 26 includes information on the concentration risk associated with the financial assets included in this category at 31 December 2017 and 2016.

## 9. Hedging derivatives – Fair value hedges

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

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

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

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

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

	Thousands of Euros			
	2017		2016	
	Asset balances	Liability balances	Asset balances	Liability balances
<b>Hedged instrument</b>				
Available-for-sale assets	1,723	1,412	511	3,966
	<b>1,723</b>	<b>1,412</b>	<b>511</b>	<b>3,966</b>

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

The 21 discloses information on the fair value of these hedging derivatives at 31 December 2017 and 2016. Note 22 includes certain information on the credit risk associated with these derivatives at 31 December 2017 and 2016.

## 10. Non-current Assets and Disposal Groups Classified as Held for Sale

The breakdown of the balance of “Non-Current Assets Held and Disposal Groups Classified as Held for Sale” in the balance sheets at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Real properties	2,772	2,716
Equity instruments	1,015	15,394
	<b>3,787</b>	<b>18,110</b>

The changes in 2017 and 2016 in the items included in this heading in the balance sheets, and the related impairment losses, were as follows:

	Thousands of Euros	
	2017	2016
<b>Cost:</b>		
Balances at 1 January	29,397	35,509
Additions	-	-
Disposals	(13,041)	(30,541)
Transfers	56	24,429
<b>Balances at 31 December</b>	<b>16,412</b>	<b>29,397</b>
<b>Impairment losses:</b>		
Balances at 1 January	(11,287)	(17,022)
Additions	(1,338)	-
Disposals	-	14,920
Transfers	-	(9,185)
<b>Balances at 31 December</b>	<b>(12,625)</b>	<b>(11,287)</b>
<b>Net Balances at 31 December</b>	<b>3,787</b>	<b>18,110</b>

The Bank holds 14.44% of the share capital of Ahorro Corporación, S.A. (in liquidation process). 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 recognized 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.

In 2017 this company distributed dividends, with a charge to its shareholders’ equity, which the Bank 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 statement of profit or loss for 2017. The valuation adjustments made in the year in order to reflect the fair value of the ownership interest were 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 statement of profit or loss for 2017.

At the end of 2017, the carrying amount of this ownership interest was EUR 1,015 thousand.

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 56 thousand ( EUR 150 thousand in 2016).

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 recognized 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.

## 11. Investments in subsidiaries, joint ventures and associates

Following is a detail of the investments held by the Bank in subsidiaries and jointly controlled entities at 31 December 2017 and 2016:

Entity	Location	Ownership Percentage	Book Value (Thousands of Euros)	
			2017	2016
<b>Subsidiaries:</b>				
Servipagos, S.A.U.	Madrid	100%	100	100
CEA Trade Services Limited	Hong Kong	100%	4	4
Trionis, S.C.R.L. (*)	Brussels	78.62%	312	312
			<b>416</b>	<b>416</b>

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

The Appendix I includes certain information on these investees.

At 31 December 2017 and 2016, the Bank did not hold interests in either multi-group or associate entities.

At 31 December 2017 and 2016, nor during those years, there was no deterioration of the holdings held by Cecabank, S.A.

There were no changes in the investments held by the Bank in these entities during 2017.

## 12. Tangible assets

The changes in 2017 and 2016 in “Tangible Assets” in the balance sheets were as follow:

	Thousands of Euros				
	Property, Plant and Equipment for Own Use			Investment Property	Total
	Land and Buildings	Furniture, Fixtures and Vehicles	IT Equipment and Related Fixtures		
<b>Cost:</b>					
Balance at 1 January 2016	71,936	27,606	10,990	1,333	111,865
Additions	-	1,151	1,465	13	2,629
Disposals	-	(1,622)	(1,327)	-	(2,949)
Transfers	(900)	290	-	900	290
<b>Balance at 31 December 2016</b>	<b>71,036</b>	<b>27,425</b>	<b>11,128</b>	<b>2,246</b>	<b>111,835</b>
Additions	-	929	1,293	3	2,225
Disposals	-	(4,716)	(316)	-	(5,032)
Transfers	-	(71)	-	-	(71)
<b>Balance at 31 December 2017</b>	<b>71,036</b>	<b>23,567</b>	<b>12,105</b>	<b>2,249</b>	<b>108,957</b>
<b>Accumulated depreciation:</b>					
Balance at 1 January 2016	(25,053)	(24,039)	(9,065)	(345)	(58,502)
Charge for the year (Note 39)	(1,008)	(1,011)	(858)	(59)	(2,936)
Disposals	-	1,620	1,318	-	2,938
Transfers	7	(140)	-	(7)	(140)
<b>Balance at 31 December 2016</b>	<b>(25,054)</b>	<b>(23,570)</b>	<b>(8,605)</b>	<b>(411)</b>	<b>(58,640)</b>
Charge for the year (Note 39)	(883)	(973)	(1,034)	(61)	(2,951)
Disposals	-	4,716	316	-	5,032
Transfers	-	15	-	-	15
<b>Balance at 31 December 2017</b>	<b>(26,937)</b>	<b>(19,812)</b>	<b>(9,323)</b>	<b>(472)</b>	<b>(56,544)</b>
<b>Tangible assets, net:</b>					
<b>Net balance at 31 December 2016</b>	<b>44,982</b>	<b>3,855</b>	<b>2,523</b>	<b>1,835</b>	<b>53,195</b>
<b>Net balance at 31 December 2017</b>	<b>44,099</b>	<b>3,755</b>	<b>2,782</b>	<b>1,777</b>	<b>52,413</b>

At 31 December 2017 and 2016, property, plant and equipment for own use totaling (gross) approximately EUR 23,542 and 26,525 thousand had been depreciated in full.

Either at 31 December 2017 or at 31 December 2016, the tangible assets owned by the Bank were not impaired or there were no changes in this connection in those years.

In 2017 the rental income earned from investment property owned by the Bank amounted to EUR 1,173 thousand (2016: EUR 1,214 thousand) (see Note 34).

In 2017, the profits on disposals arising under “Property, Plant and Equipment – For Own Use” totaled EUR 2 thousand, recognized under “Gains or Losses on Derecognition of Non-Financial Assets and Investments, Net” in the income statement for 2017 (2016: losses of EUR 12 thousand).

## 13. Intangible assets

### 13.1. Other intangible assets

The balance of this heading includes basically rights arising from the acquisition of certain depository businesses and custody of third party securities relating to collective investment undertakings and pension funds, as well as, to a lesser extent, computer software developed by the Bank, which is amortised as indicated in Note 2.14 above. The detail of "Other Intangible Assets" in the balance sheets as at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Intangible assets with finite useful life	320,062	279,791
Less:		
Accumulated amortization	(91,198)	(175,750)
Impairment losses	-	(44,810)
<b>Total net</b>	<b>228,864</b>	<b>59,231</b>

At 31 December 2017 the balance of fully amortized intangible assets in use was 5,741 thousands of euros (5,145 thousands of euros at 2016).

The changes in 2017 and 2016 in the balance sheet were as follows:

	Thousands of Euros
<b>Cost:</b>	
Balance at 1 January 2016	251,773
Additions and transfers	28,018
Disposals	-
<b>Balance at 31 December 2016</b>	<b>279,791</b>
Additions and transfers	223,249
Disposals and other movements	(182,978)
<b>Balance at 31 December 2017</b>	<b>320,062</b>
<b>Accumulated amortization:</b>	
Balance at 1 January 2016	(123,098)
Charge for the year (Note 39)	(52,652)
Disposals and other movements	-
<b>Balance at 31 December 2016</b>	<b>(175,750)</b>
Charge for the year (Note 39)	(53,883)
Disposals and other movements	138,435
<b>Balance at 31 December 2017</b>	<b>(91,198)</b>
<b>Value adjustments for impairment at 31 December 2016</b>	<b>(44,810)</b>
<b>Value adjustments for impairment at 31 December 2017</b>	<b>-</b>
<b>Intangible assets, net:</b>	
<b>Net balance at 31 December 2016</b>	<b>59,231</b>
<b>Net balance at 31 December 2017</b>	<b>228,864</b>

Las adiciones de los ejercicios 2017 y 2016 del cuadro anterior corresponden, fundamentalmente, a la activación del coste. The additions in 2017 and 2016 in the foregoing table relate mainly to the capitalisation of the cost of the new depository contracts that arose following the renewal of the rights and obligations resulting from businesses acquired in prior years for the management of depository and custody services for securities entrusted by third parties, as well as to the variable payments made as a result of the achievement of certain contractual objectives and to the inclusion in the cost of guaranteed amounts originating from those businesses. Parallel to this capitalisation, in 2017 the Bank derecognised the amortisation and impairment losses associated with the contracts that were renewed, which had been amortised in full.

## 14. Other assets and liabilities

### 14.1. Other assets

The breakdown of the balance of “Other Assets” and “Other Liabilities” in the balance sheets at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Other assets-		
Prepayments-		
Fees and commissions receivable	12,698	11,495
Non-accrued expenses	118	73
Other prepayments	1,228	936
Other assets-		
Transactions in transit	14,613	11,431
Nets Assets Post-Employment plans (Notes 2.11.2 & 35)	7,507	5,171
Other	6,780	4,897
	<b>42,944</b>	<b>34,003</b>

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

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

### 14.2. Other liabilities

The composition of the balance in the balance sheets at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Accrued expenses and deferred income-		
Fees and commissions payable	1,932	1,214
Accrued expenses	46,784	48,506
Accrued revenues	2,036	405
Other liabilities-		
Transactions in transit	94,301	80,316
Other	5,686	7,239
	<b>150,739</b>	<b>137,680</b>

“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, 2017, balances amounting to 22,676 thousand euros (EUR 24,993 thousand at 31 December 2016) that originate in variable remuneration paid by the outstanding staff.

## 15. Financial liabilities at amortised cost

### 15.1. Breakdown

The detail of the items composing this heading in the balance sheets at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
<b>Deposits-</b>		
Deposits from credit institutions	858,371	959,259
Customer deposits	5,533,698	5,144,315
	<b>6,392,069</b>	<b>6,103,574</b>
Valuation adjustments	209	(169)
	<b>6,392,278</b>	<b>6,103,405</b>
Other financial liabilities	640,343	626,638
	<b>7,032,621</b>	<b>6,730,043</b>

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

### 15.2. Financial liabilities at amortised cost - Deposits 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 balance sheets at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
<b>By geographical location:</b>		
Spain	548,992	637,268
Other EMU countries	188,589	118,765
Rest of the world	120,401	202,520
	<b>857,982</b>	<b>958,553</b>
<b>By type of instrument:</b>		
Demand deposits and other-		
Other accounts	562,876	898,809
Time deposits-		
Time deposits	149,707	56,813
Repurchase agreements	145,788	3,637
	<b>858,371</b>	<b>959,259</b>
Valuation adjustments	(389)	(706)
	<b>857,982</b>	<b>958,553</b>

### 15.3. Financial liabilities at amortised cost - Customer deposits

The breakdown, by geographical area of residence of the counterparty, type of instrument and type of counterparty, of the balances of this item in the balance sheets at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
<b>By geographical location:</b>		
Spain	5,428,586	5,137,351
Other EMU countries	5,239	6,251
Rest of the world	100,471	1,250
	<b>5,534,296</b>	<b>5,144,852</b>
<b>By counterparty:</b>		
Resident public sector	233,239	130,646
Non-resident public sector	217	380
Other resident sectors	5,194,688	4,999,528
Other non-resident sectors	5,989	7,121
Central counterparties	99,565	6,640
	5,533,698	5,144,315
Valuation adjustments	598	537
	<b>5,534,296</b>	<b>5,144,852</b>
<b>By type of instrument:</b>		
Current accounts	4,758,254	4,458,684
Other demand deposits	92,505	60,778
Fixed-term deposits	580,364	618,213
Repurchase agreements	102,575	6,640
	5,533,698	5,144,315
Valuation adjustments	598	537
	<b>5,534,296</b>	<b>5,144,852</b>

### 15.4. Financial liabilities at amortised cost - Other financial liabilities

The breakdown of the balance of this item in the balance sheets at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Payment obligations	31,268	21,206
Collateral received	198	182
Tax collection accounts	-	2,072
Special accounts	20,939	35,290
Other	587,938	567,888
	<b>640,343</b>	<b>626,638</b>

At 31 December 2017, "Other" in the foregoing table included, among other items, balances amounting to EUR 446,722 thousand (31 December 2016: EUR 336,878 thousand) arising from means of payment procedures that certain credit institutions carry out through the Bank. These balances are temporary and are settled on the first business day following the date on which they arose.

In addition, the account "Other" in the previous table includes, at 31 December 2017, 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 54,206 thousand euros (2016: EUR 54,641 thousand).

## 16. Provisions

### 16.1. Provisions or reversal of provisions

The detail, according to the purpose of the net provisions recognized, of this item in the income statement for 2017 and 2016 is as follows:

	Thousands of Euros	
	Net Additions/ (Reversals)	
	2017	2016
Additions to/ (Reversal of) provisions for pensions and similar obligations (Notes 16.2 & 35)	211	(954)
Additions to/ (Reversal of) for commitments and guarantees granted (Note 16.2)	72	118
Additions to/ (Reversal of) for procedural issues and procedural tax litigation (Note 16.2)	3,321	13,953
Additions to/ (Reversal of) other provisions (Note 16.2)	(20,513)	(16,353)
	<b>(16,909)</b>	<b>(3,236)</b>

### 16.2. Provisions - changes and breakdown

The changes in the balances of these items in the balance sheets at 31 December 2017 and 2016 were as follows:

	Thousands of Euros			
	Other long-term employee remunerations (Note 35)	Commitments and guarantees granted (Notes 2.10, 22 and 27.1)	Procedural issues and tax litigation proceedings (Note 20.1)	Other provisions
Balances at 1 January 2016	<b>91,094</b>	<b>16</b>	<b>6,321</b>	<b>112,947</b>
Net addition/ (reversal) charged/ (credited) to income (Note 16.1)	(954)	118	13,953	(16,353)
Other net movements	(13,974)	-	(611)	(2,523)
<b>Balances at 31 December 2016</b>	<b>76,166</b>	<b>134</b>	<b>19,663</b>	<b>94,071</b>
Net addition/ (reversal) charged/ (credited) to income (Note 16.1)	211	72	3,321	(20,513)
Other net movements	(13,148)	-	(8,096)	(38)
<b>Balances at 31 December 2017</b>	<b>63,229</b>	<b>206</b>	<b>14,888</b>	<b>73,520</b>

“Other Changes, Net” under “Other Long-Term Employee Benefits” in 2017 consists mainly of the benefits paid to participants in the defined benefit plans totaling EUR 13,200 thousand (2016: EUR 14,273 thousand) (see Note 35).

The balance recognised under “Provisions - Pending Legal Issues and Tax Litigation” includes mainly the amounts recognised to cover certain risks of varying nature to which the directors consider the Bank to be exposed.

“Other Provisions” at 31 December 2017 includes basically the amount recorded to cater for the operational risk to which the directors consider the Bank to be exposed as a result of the provision of custody and depository services for securities entrusted by third parties, as well as the provisions recognised in relation to operations involving certain interest rate derivatives. “Other Provisions - Other Changes, Net” in 2017 includes the amounts recovered as a result of the derecognition from the Bank’s balance sheet of certain derivative instruments relating to the aforementioned operations (see Note 13).

## 17. Other accumulated net income

### **17.1. Items that can be reclassified into income - Available-for-sale financial assets**

This item in the balance sheets at 31 December 2017 and 2016 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 7) which, as stated in Note 2.2, should be recognized in the Bank's equity; these changes are recognized in the income statements when the assets which gave rise to them are sold or when these assets become impaired. The accompanying statements of recognized income and expense show the changes in 2017 and 2016 in this item in the balance sheets at 31 December 2017 and 2016.

### **17.2. Items that can be reclassified into income - Non-Current Assets and Disposal Groups Classified as Held for Sale**

This heading in the balance sheet at 31 December 2017 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. (in liquidation), which in 2016 were reclassified to "Non-Current Assets and Disposal Groups Classified as Held for Sale" in the accompanying balance sheet (see Note 10). The statement of changes in equity includes the changes in the balances recognized under this heading in the balance sheets in 2017 and 2016.

### **17.3. Items that can not be reclassified into income - Actuarial gains and losses from defined benefit pension obligations**

This heading in the balance sheets at 31 December 2017 and 2016 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 2017 and 2016 in this item in the balance sheets at 31 December 2017 and 2016.

## 18. Share Capital and Share Premium

### **18.1. Share capital**

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

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

In this regard, at 31 December 2017 and 2016, 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 2017 and 2016, 89% of the Bank's share capital was held by Confederación Española de Cajas de Ahorros. The remaining 11% is owned by the entities that were holders of the non-voting equity units of CECA and accepted the repurchase offer mentioned above.

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

The Bank's shares are not listed on official stock markets. Except for the CECA's 89% ownership interest in the Bank's share capital, no entity holds more than 10% of the Bank's share capital. There are no rights on founder's shares, "rights" bonds, convertible debentures or similar securities or rights issued by the Bank or the Group. There are no payments payable on the Bank's shares, amounts authorised by the General Meeting for carrying out capital increases, or capital increases in progress. During the 2017 and 2016 years there were no increases in the number of shares issued by the Bank.

## **18.2. Share premium**

According to the Spanish Limited Liability Companies Law, it is explicitly permitted the use of the balance of this reserve to increase capital and it establishes no specific restrictions as to its use. The balance of the share premium at 31 December 2017 and 2016 amounted to EUR 615,493 thousand which arose as a result of the capital increase described in Note 18.1 above and the recognition in 2012 of the spin-off of the assets and liabilities of Cecabank described previously (see Note 1.1).

## **19. Other reserves**

The changes in the balances of these items in the balance sheets at 31 December 2017 and 2016 were as follows:

### **19.1. Legal Reserve**

According to the Spanish Limited Liability Companies Law, companies that obtain economic benefits, should allocate at least 10% of them to the constitution of the legal reserve. These transfers must be made until the reserve reaches 20% of capital. The legal reserve can be used to increase share capital by the amount of the balance that exceeds 10% of the already increased share capital amount. Except for this purpose, it can only be used to offset losses, and provided that there are no other sufficient reserves available for this purpose. The balance of this heading at 31 December 2017 amounted to EUR 22,451 thousand (EUR 21,872 thousand at 31 December 2016).

### **19.2. Voluntary Reserves**

These reserves are unrestricted reserves for the Bank, as there is no legal or bylaw restriction on their use. The balance thereof at 31 December 2017 totals EUR 189,202 thousand (31 December 2016: EUR 132,521 thousand). This balance includes EUR 9,267 thousand relating to the capitalization reserve created in 2016 in accordance with Article 25 of Spanish Income Tax Law 27/2014, of 27 November. This reserve is restricted until 2020.

## **20. Tax matters**

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

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

### **20.1. Years open for review by the tax authorities**

On formulation date, the Bank is being inspected by the tax authorities the tax period 2014 and subsequent years for the main taxes applicable to it.

In 2017, as a result of an audit conducted by the tax authorities, tax assessments were issued for the years until 2013 inclusive, most of which were signed on an uncontested basis. The tax liabilities arising from the aforementioned assessments did not have a material impact on these financial statements.

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 income statements for 2017 and 2016 is as follows:

	Thousands of Euros Expenses/(Revenues)	
	2017	2016
Income tax expense for the year (Note 20.3)	31,626	32,709
Prior years' and other adjustments	3,312	(718)
	<b>34,938</b>	<b>31,991</b>

## 20.3. Reconciliation of accounting profit to taxable profit

The reconciliation of the income tax expenses recognized for 2017 and 2016 to the accounting profit before tax multiplied by the tax rate applicable to the Bank, and the income tax charge recognized at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Accounting profit before tax	108,156	108,338
Tax rate	30%	30%
	32,447	32,501
Permanent differences:		
Increases	1,190	1,935
Decreases	(1,866)	(1,585)
<b>Total</b>	<b>31,771</b>	<b>32,851</b>
(Tax credits)/(Tax relief)	(145)	(142)
<b>Income tax expense for the year (Note 20.2)</b>	<b>31,626</b>	<b>32,709</b>
Temporary differences:		
Increases	8,569	24,937
Decreases	(21,877)	(26,978)
Tax with holdings and prepayments	(23,941)	(19,819)
<b>Income tax charge for the year</b>	<b>(5,623)</b>	<b>10,849</b>

The current income tax charge shown in the above table is recognized under "Tax Assets-Current Tax Assets" in the balance sheet attached at 31 December 2017 (at 31 December 2016 were recognized under "Tax Liabilities - Current Tax Liabilities" on the balance sheet attached).

### 20.4. Tax recognized in equity

In addition to the income tax recognized in the income statement, in 2017 and 2016 the Bank recognized the following deferred amounts of income tax in equity during those periods:

	Thousands of Euros	
	Increase/Decrease in Equity	
	2017	2016
Tax effect of actuarial gains and losses on pension plans to defined benefit	(667)	(515)
Tax effect of unrealized gains and losses on available for sale and hedging cash flows	4,317	7,341
Tax effect of unrealized gains and losses on non-current assets held for sale and disposal groups held for sale (Note 10)	3,105	(3,105)
	<b>6,755</b>	<b>3,721</b>

### 20.5. Deferred taxes

Pursuant to the tax legislation in force, in 2017 and 2016 certain temporary differences arose that must be taken into account when quantifying the related income tax expense. The deferred taxes recognized in the balance sheets at 31 December 2017 and 2016 were as follows:

	Thousands of Euros	
	2017	2016
<b>Deferred tax assets arising from:</b>		
Additions and contributions to pension provisions and funds and other long-term obligations to employees	11,370	14,032
Additions to provisions	25,252	35,529
Impairment losses	67,559	72,467
Other	4,671	2,336
	<b>108,852</b>	<b>124,364</b>

EUR 29,578 thousand of the total deferred tax assets recognized at 31 December 2017 (31 December 2016: EUR 33,650 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	
	2017	2016
<b>Deferred tax liabilities arising from:</b>		
Revaluation of property	7,998	8,058
Available-for-sale debt instruments	15,938	23,314
Additions and contributions to pension provisions and funds and to provisions for other long-term obligations to employees	2,252	1,551
	<b>26,188</b>	<b>32,923</b>

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

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

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

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

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

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

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

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

### 20.7. Tax credit for reinvestment of extraordinary benefits

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

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

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

### 20.8 Revaluation of assets

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

## 21. Fair value

### 21.1. Fair value of financial assets and liabilities

The fair value of the Bank's financial instruments at 31 December 2017 and 2016 is broken down, by class of financial asset and liability, in this Note, into the following levels:

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

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

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

- Trading derivatives and hedging derivatives:
  - Financial derivatives traded in organized, transparent and deep markets: fair value is deemed to be their daily quoted price.
  - OTC derivatives or derivatives traded in scantily deep or transparent organised markets: fair value is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques accepted in the financial markets: "net present value" (NPV), option pricing models, etc.
- Debt instruments:
  - Quoted debt instruments: their fair value was generally determined on the basis of price quotations on official markets, at the Bank of Spain Book-Entry Trading Central Office, on the Spanish AIAF fixed-income market, etc., or by applying prices obtained from information service providers, mainly Bloomberg and Reuters, which construct their quotes on the basis of prices reported by contributors.
  - Unquoted debt instruments: their fair value is determined theoretically on the basis of discounted future cash flows and by using, for the specific instrument concerned, the corresponding valuation model recognised by the financial markets.
- Equity instruments:
  - Quoted equity instruments: their fair value was determined taking into account their price quotations on official markets.
  - Unquoted equity instruments: their fair value was determined taking into consideration valuations performed by independent experts, including intern control over their valuation, or directly using intern valuations. In both cases, there has been used:
    - Discounted cash flows.
    - Multiples of comparable listed companies.
    - Adjusted Net Asset Value (NAV).

Loans and advances to customers:

- The Bank considered the fair value of these financial assets to be the same as their carrying amount, since, as a result of their maturity and interest rate features and the early repayment clause of most transactions, there are no material differences between the two values.

Financial liabilities at amortized cost:

- The Bank considered the fair value of these financial liabilities to be the same as their carrying amount, since, as a result of their maturity and interest rate features, there are no material differences between the two values.

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

The fair value of the Bank's financial instruments at 31 December 2017 and 2016, broken down as indicated above, is as follows

Financial assets – fair value at 31 December 2017-

	Thousands of Euros											
	Cash, cash balances at central banks and other demand deposits (Note 5)		Financial Assets Held for Trading (Note 6.1)		Financial Assets at Fair Value Through Profit or Loss (Note 6.2)		Available-for-sale Financial Assets (Note 7)		Loans and Receivables (Note 8)		Derivatives – hedge accounting (Note 9)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Level 1:</b>												
Debt instruments	-	-	735,781	735,781	-	-	1,588,093	1,588,093	-	-	-	-
Equity instruments	-	-	287,482	287,482	-	-	19,005	19,005	-	-	-	-
Derivatives	-	-	122	122	-	-	-	-	-	-	-	-
	-	-	1,023,385	1,023,385	-	-	1,607,098	1,607,098	-	-	-	-
<b>Level 2:</b>												
Cash and balances with central banks and other demand deposits	2,656,780	2,656,780	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	-	-	-	-	256,876	256,876	-	-	1,758,369	1,758,369	-	-
Loans and advances to customers	-	-	-	-	-	-	-	-	904,350	904,350	-	-
Debt instruments	-	-	90,105	90,105	-	-	145,452	145,452	21,731	21,731	-	-
Equity instruments	-	-	-	-	-	-	19,711	19,711	-	-	-	-
Trading derivatives	-	-	1,031,280	1,031,280	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-	-	-	1,723	1,723
	2,656,780	2,656,780	1,121,385	1,121,385	256,876	256,876	165,163	165,163	2,684,459	2,684,459	1,723	1,723
<b>Level 3:</b>												
Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
	2,656,780	2,656,780	2,144,770	2,144,770	256,876	256,876	1,772,261	1,772,261	2,684,459	2,684,459	1,723	1,723

Financial assets – fair value at 31 December 2016-

	Thousands of Euros											
	Cash, cash balances at central banks and other demand deposits (Note 5)		Financial Assets Held for Trading (Note 6.1)		Financial Assets at Fair Value Through Profit or Loss (Note 6.2)		Available-for-sale Financial Assets (Note 7) (*)		Loans and Receivables (Note 8)		Derivatives – hedge accounting (Note 9)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Level 1:</b>												
Debt instruments	-	-	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	-	-	-	-
<b>Level 2:</b>												
Cash and balances with central banks and other demand deposits	2,189,682	2,189,682	-	-	-	-	-	-	-	-	-	-
Loans and advances to credit institutions	-	-	-	-	898,579	898,579	-	-	703,194	703,194	-	-
Loans and advances to customers	-	-	-	-	167,857	167,857	-	-	490,435	490,435	-	-
Debt instruments	-	-	49,893	49,893	-	-	470,917	470,917	21,874	21,874	-	-
Equity instruments	-	-	-	-	-	-	16,003	16,003	-	-	-	-
Trading derivatives	-	-	1,246,830	1,246,830	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-	-	-	511	511
	2,189,682	2,189,682	1,296,723	1,296,723	1,066,436	1,066,436	486,920	486,920	1,215,503	1,215,503	511	511
<b>Level 3:</b>												
Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
	2,189,682	2,189,682	2,008,565	2,008,565	1,066,436	1,066,436	3,321,162	3,321,162	1,215,503	1,215,503	511	511

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

Financial liabilities – fair value at 31 December 2017

	Thousand of Euros							
	Financial Liabilities Held for Trading (Note 6.1)		Financial Liabilities at Fair Value Through Profit or Loss (Note 6.2)		Financial Liabilities at Amortised Cost (Note 15)		Derivatives – hedge accounting (Note 9)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Level 1:</b>								
Trading derivatives	46	46	-	-	-	-	-	-
Short positions	393,937	393,937	-	-	-	-	-	-
	393,983	393,983	-	-	-	-	-	-
<b>Level 2:</b>								
Deposits from central banks	-	-	-	-	-	-	-	-
Deposits from credit institutions	-	-	-	-	857,982	857,982	-	-
Customer deposits	-	-	-	-	5,534,296	5,534,296	-	-
Trading derivatives	1,145,995	1,145,995	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	640,343	640,343	-	-
Hedging derivatives	-	-	-	-	-	-	1,412	1,412
	1,145,995	1,145,995	-	-	7,032,621	7,032,621	1,412	1,412
<b>Level 3:</b>								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,539,978</b>	<b>1,539,978</b>	<b>-</b>	<b>-</b>	<b>7,032,621</b>	<b>7,032,621</b>	<b>1,412</b>	<b>1,412</b>

Financial liabilities – fair value at 31 December 2016-

	Thousands of Euros							
	Financial Liabilities Held for Trading (Note 6.1)		Other Financial Liabilities at Fair Value Through Profit or Loss (Note 6.2)		Financial Liabilities at Amortised Cost (Note 15)		Derivatives – hedge accounting (Note 9)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Level 1:</b>								
Trading derivatives	3,680	3,680	-	-	-	-	-	-
Short positions	433,716	433,716	-	-	-	-	-	-
	437,396	437,396	-	-	-	-	-	-
<b>Level 2:</b>								
Deposits from central banks	-	-	-	-	-	-	-	-
Deposits from credit institutions	-	-	38,510	38,510	958,553	958,553	-	-
Customer deposits	-	-	147,392	147,392	5,144,852	5,144,852	-	-
Trading derivatives	1,342,404	1,342,404	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	626,638	626,638	-	-
Hedging derivatives	-	-	-	-	-	-	3,966	3,966
	1,342,404	1,342,404	185,902	185,902	6,730,043	6,730,043	3,966	3,966
<b>Level 3:</b>								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-	-
Trading derivatives	-	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,779,800</b>	<b>1,779,800</b>	<b>185,902</b>	<b>185,902</b>	<b>6,730,043</b>	<b>6,730,043</b>	<b>3,966</b>	<b>3,966</b>

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

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

In 2017 and 2016, 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 (own-use properties and property investments) owned by the Bank whose fair value differs from their carrying amount are the properties owned by it. At 31 December 2017, the carrying amount of these properties amounted to EUR 45,876 thousand (31 December 2016: EUR 46,817 thousand) and their estimated fair value at that date was EUR 58,405 thousand at 31 December 2017 (31 December 2016: EUR 50,469 thousand).

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

## 22. Exposure to credit risk associated with financial instruments

### 22.1. Credit risk management objectives, policies and processes

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

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

#### [Credit risk analysis](#)

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

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

#### [Credit risk monitoring and control](#)

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

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

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

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

#### [Risk limit structure](#)

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

#### [Credit Risk Measurement Methodology](#)

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

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

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

### Concentration risk

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

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

According to the regulations in force, no position exceeded the large exposure threshold at 31 December 2017 and 2016.

At 31 December 2017, with regard to distribution by country, the largest exposure was located in Spain (81.77%), followed by the other European Union countries (16.92%) rising the exposure in the other countries of the world to 1.31%. At 31 December 2016, the distribution by country was 78.6%, 20.5%, and 0.9% respectively.

In Note 26 information on the risk of geographical concentration of the Bank as of December 31, 2017 and 2016 is presented.

Regarding the high level of industry concentration, it is due to the Bank's focus and the conducting of many activities, operations and services within the banking business in general, or indirectly related to it. Also, the risks in the financial services industry account for more than 95% of the total risk exposure at 31 December 2017 (excluding government exposure), although when evaluating this level of industry concentration it should be taken into account that this exposure is to a highly regulated and supervised segment.

## 22.2. Maximum credit risk exposure level

The followings tables show the maximum level of exposure to credit risk assumed by the Bank at 31 December 2017 and 2016 by class and category of financial instrument, without deducting the collateral or other guarantees received by the Bank to ensure debtors meet their obligations:

31 December 2017:

	Thousands of Euros							
	Assets						Memorandum Items	Total
	Financial Asset Held for Trading (Note 6.1) (1)	Financial Asset at Fair Value Through Profit or Loss (Note 6.2.1)	Available- for-Sale financial Assets (Note 7)	Loans and Receivables (Note 8)	Derivatives – hedge accounting (Note 9)			
<b>1. Loans and receivables-</b>								
<b>1.1 Loans and credits to credit institutions</b>	-	<b>256,932</b>	-	<b>1,758,806</b>	-	-	<b>2,015,738</b>	
• Reverse repurchase agreements	-	256,932	-	968,241	-	-	1,225,173	
• Time deposits	-	-	-	32,652	-	-	32,652	
• Deposits provided as guarantee for securities lending transactions	-	-	-	-	-	-	-	
• Non-performing assets	-	-	-	78	-	-	78	
• Other accounts and other	-	-	-	757,835	-	-	757,835	
<b>1.2 Debt instruments</b>	<b>825,886</b>	-	<b>1,677,569</b>	<b>50,984</b>	-	-	<b>2,554,439</b>	
• Government debt securities	615,146	-	662,762	-	-	-	1,277,908	
• Treasury bills	-	-	150,266	-	-	-	150,266	
• Other public agencies	17,765	-	15,129	-	-	-	32,894	
• Non-resident Public sector	46,963	-	542,703	-	-	-	589,666	
• Spanish credit institutions	71,813	-	24,822	-	-	-	96,635	
• Credit institutions not resident in Spain	10,100	-	15,046	-	-	-	25,146	
• Private sector (Spain)	16,751	-	190,463	-	-	-	207,214	
• Private sector (rest of the world)	47,348	-	76,378	-	-	-	123,726	
• Non-performing assets	-	-	-	50,984	-	-	50,984	
<b>1.3 Loans and advances to customers</b>	-	-	-	<b>945,099</b>	-	-	<b>945,099</b>	
• Reverse repurchase agreements	-	-	-	382,419	-	-	382,419	
• Mortgage loans	-	-	-	46,143	-	-	46,143	
• Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	
• Other loans and credits	-	-	-	175,877	-	-	175,877	
• Non-performing assets	-	-	-	55,498	-	-	55,498	
• Other assets	-	-	-	285,162	-	-	285,162	
<b>Total debt instruments</b>	<b>825,886</b>	<b>256,932</b>	<b>1,677,569</b>	<b>2,754,889</b>	-	-	<b>5,515,276</b>	
<b>2. Contingent liabilities -</b>								
Financial guarantees (Note 27.1)	-	-	-	-	-	67,214	67,214	
<b>Total contingent liabilities</b>	-	-	-	-	-	67,214	67,214	
<b>3. Other exposures -</b>								
Derivatives	1,031,402	-	-	-	1,723	-	1,033,125	
Drawable by third parties (Note 27.3)	-	-	-	-	-	181,463	181,463	
<b>Total other exposures</b>	<b>1,031,402</b>	-	-	-	<b>1,723</b>	<b>181,463</b>	<b>1,214,588</b>	
<b>4. Less: impairment losses recognized</b>	-	-	<b>(1,102)</b>	<b>(84,225)</b>	-	<b>(206)</b>	<b>(85,533)</b>	
<b>Maximum level of credit risk exposure (1+2+3+4)</b>	<b>1,857,288</b>	<b>256,932</b>	<b>1,676,467</b>	<b>2,670,664</b>	<b>1,723</b>	<b>248,471</b>	<b>6,711,545</b>	
Valuation adjustments	-	(56)	57,078	13,795	-	-	70,817	
<b>Total carrying amount</b>	<b>1,857,288</b>	<b>256,876</b>	<b>1,733,545</b>	<b>2,684,459</b>	<b>1,723</b>	<b>248,471</b>	<b>6,782,362</b>	

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

31 December 2017:

	Thousands of Euros						
	Assets					Memorandum Items	Total
	Financial Asset Held for Trading (Note 6.1) (1)	Financial Asset at Fair Value Through Profit or Loss (Note 6.2.1)	Available-for-Sale financial Assets (Note 7)	Loans and Receivables (Note 8)	Derivatives – hedge accounting (Note 9)		
<b>1. Loans and receivables-</b>							
<b>1.1 Loans and credits to credit institutions</b>	-	<b>898,690</b>	-	<b>703,459</b>	-	-	<b>1,602,149</b>
• 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	-	-	-	640,063	-	-	640,063
<b>1.2 Debt securities</b>	<b>606,452</b>	-	<b>3,174,578</b>	<b>56,052</b>	-	-	<b>3,837,082</b>
• Government debt securities	557,163	-	1,256,952	1,600	-	-	1,815,715
• Treasury bills	10,002	-	855,658	-	-	-	865,660
• Other publicagencies	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 the world)	-	-	56,433	-	-	-	56,433
• Non-performing assets	-	-	-	54,452	-	-	54,452
<b>1.3 Loans and credits to customers</b>	-	<b>167,898</b>	-	<b>550,023</b>	-	-	<b>717,921</b>
• Reverse repurchase agreements	-	167,898	-	-	-	-	167,898
• Mortgage loans	-	-	-	45,174	-	-	45,174
• Guarantee deposits on securities lending transactions	-	-	-	-	-	-	-
• Other loans and credits	-	-	-	31,299	-	-	31,299
• Non-performing assets	-	-	-	55,390	-	-	55,390
• Other assets	-	-	-	418,160	-	-	418,160
<b>Total debt instruments</b>	<b>606,452</b>	<b>1,066,588</b>	<b>3,174,578</b>	<b>1,309,534</b>	-	-	<b>6,157,152</b>
<b>2. Contingent liabilities -</b>							
Financial guarantees (Note 27.1)	-	-	-	-	-	65,223	65,223
<b>Total contingent liabilities</b>	-	-	-	-	-	<b>65,223</b>	<b>65,223</b>
<b>3. Other exposures -</b>							
Derivatives	1,250,753	-	-	-	511	-	1,251,264
Drawable by third parties (Note 27.3)	-	-	-	-	-	125,671	125,671
<b>Total other exposures</b>	<b>1,250,753</b>	-	-	-	<b>511</b>	<b>125,671</b>	<b>1,376,935</b>
<b>4. Less: impairment losses recognized</b>	-	-	<b>(1,404)</b>	<b>(94,035)</b>	-	<b>(134)</b>	<b>(95,573)</b>
<b>Maximum credit risk exposure level (1+2+3+4)</b>	<b>1,857,205</b>	<b>1,066,588</b>	<b>3,173,174</b>	<b>1,215,499</b>	<b>511</b>	<b>190,760</b>	<b>7,503,737</b>
Valuation adjustments	-	(152)	80,808	4	-	-	80,660
<b>Total carrying amount</b>	<b>1,857,205</b>	<b>1,066,436</b>	<b>3,253,982</b>	<b>1,215,503</b>	<b>511</b>	<b>190,760</b>	<b>7,584,397</b>

(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.

With respect to the credit derivatives arranged by the Bank, the foregoing tables include only the fair value thereof at 31 December 2017 and 2016 of such credit derivatives with debit balance, without considering if exists netting agreements.

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

### 22.3. Collateral received and other credit enhancements

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

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

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

Following is a detail of the Bank's maximum credit risk exposure to each financial instrument class secured by collateral or other credit enhancements in addition to the personal guarantee of the borrower, disregarding recognized impairment losses, at 31 December 2017 and 2016:

31 December 2017:

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

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

31 December 2016:

	Thousands of Euros							Total
	Government-backed	Secured by Spanish Government Debt Securities	Secured by Other Fixed-Income Securities	Secured by Shares	Netting Agreements	Secured by Mortgage	Guaranteed by Credit Institutions	
<b>1. Debt instruments-</b>								
<b>1.1 Loans and advances to credit institutions</b>	-	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	-	-	-	-	-	-	-	-
<b>1.2 Debt instruments</b>	229,188	-	-	-	-	-	-	229,188
<b>1.3 Loans and advances to customers</b>	-	167,898	-	-	-	45,174	-	213,072
• Reverse repurchase agreements	-	167,898	-	-	-	-	-	167,898
• Mortgage loans	-	-	-	-	-	45,174	-	45,174
• Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
• Loans with other collaterals	-	-	-	-	-	-	-	-
<b>Total debt instruments</b>	229,188	751,173	315,415	6,642	-	45,174	-	1,347,592
<b>2. Contingent liabilities-</b>								
Financial guarantees and other indemnities	-	-	-	-	-	-	-	-
Documentary credits	-	-	-	-	-	-	-	-
<b>Total contingent liabilities</b>	-	-	-	-	-	-	-	-
<b>3. Other exposures-</b>								
Derivatives (*)	-	-	-	-	1,897,667	-	-	1,897,667
<b>Total other exposures</b>	-	-	-	-	1,897,667	-	-	1,897,667
<b>Total amount covered</b>	229,188	751,173	315,415	6,642	1,897,667	45,174	-	3,245,259

(\*) 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. This amount relates to IRSs which have matching liability balances for the same amount with the same counterparty. Since the requirements established in Note 2.9 are met, they are presented at their net amount in the balance sheet.

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

### 22.4.1. Analysis of credit risk exposure by credit rating

At 31 December 2017, 74.2% of the exposure had been rated by a credit rating agency recognized by the Bank of Spain (75.4% at 31 December 2016). The distribution, by rating, of the rated exposure is as follows:

Level	Rating (*)	Percentage	
		2017	2016
1	AAA-AA	7.1%	5.5%
2	A	33.9%	33.7%
3	BBB	44.0%	36.1%
4	BB	12.8%	20.5%
5	B	2.2%	4.2%
6	CCC and below	-	-
	<b>Total</b>	<b>100%</b>	<b>100%</b>

(\*) 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, debt of regional administrations and other public organisms, and that corresponding to central counterparties, all of which are exempt for the purposes of the limits to the great risks.

22.4.2. Classification of credit risk exposure by counterparty

Following is a detail, by counterparty, of the maximum credit risk exposure (excluding impairment losses and other valuation adjustments recognized) in connection with financial assets not past-due or impaired at 31 December 2017 and 2016:

At 31 December 2017:

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

31 December 2016:

	Thousands of Euros							Total
	Resident Public Sector	Resident Credit Institutions	Other Resident Entities	Other Residents	Non-resident Public Sector	Non-Resident Credit Institutions	Other non-Resident Sectors	
<b>1. Debt instruments-</b>								
<b>1.1 Loans and advances to credit institutions</b>	-	<b>1,134,221</b>	-	-	-	<b>467,782</b>	-	<b>1,602,003</b>
• 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	-	-	-	151,524	-	491,888
• Other	-	4,500	-	-	-	143,675	-	148,175
<b>1.2 Debt instruments</b>	<b>2,801,079</b>	<b>44,142</b>	-	<b>225,859</b>	<b>550,349</b>	<b>104,768</b>	<b>56,433</b>	<b>3,782,630</b>
<b>1.3 Loans and advances to customers</b>	<b>117,027</b>	-	<b>51,048</b>	<b>488,108</b>	<b>11</b>	-	<b>6,337</b>	<b>662,531</b>
• Reverse repurchase agreements	116,850	-	51,048	-	-	-	-	167,898
• Deposits provided as guarantee for securities lending	-	-	-	-	-	-	-	-
• Other loans and credits	177	-	-	27,284	11	-	3,827	31,299
• Mortgage loans	-	-	-	45,174	-	-	-	45,174
• Other assets	-	-	-	415,650	-	-	2,510	418,160
<b>Total debt instruments</b>	<b>2,918,106</b>	<b>1,178,363</b>	<b>51,048</b>	<b>713,967</b>	<b>550,360</b>	<b>572,550</b>	<b>62,770</b>	<b>6,047,164</b>
<b>2. Contingent liabilities-</b>								
Financial guarantees and other indemnities	-	60,753	-	4,427	-	-	43	65,223
Documentary credits	-	-	-	-	-	-	-	-
<b>Total contingent liabilities</b>	-	<b>60,753</b>	-	<b>4,427</b>	-	-	<b>43</b>	<b>65,223</b>
<b>3. Other exposures-</b>								
Derivatives	-	172,676	428,567	175	-	649,846	-	1,251,264
Contingent commitments	-	9,030	116,641	-	-	-	-	125,671
<b>Total other exposures</b>	-	<b>181,706</b>	<b>545,208</b>	<b>175</b>	-	<b>649,846</b>	-	<b>1,376,935</b>
<b>Total</b>	<b>2,918,106</b>	<b>1,420,822</b>	<b>596,256</b>	<b>718,569</b>	<b>550,360</b>	<b>1,222,396</b>	<b>62,813</b>	<b>7,489,322</b>

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 2017 and 2016:

31 December 2017:

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

31 December 2016:

	Thousands of Euros							
	TOTAL	Of which: real estate collateral	Of which: Other real guarantees	Credit with real estate collateral. Carrying amount on amount of the latest available valuation (Loan to value)				
				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%
<b>Public Administrations</b>	<b>117,038</b>	-	<b>116,820</b>	-	-	-	<b>116,820</b>	-
<b>Other financial institutions and individual entrepreneurs (financial business activity)</b>	<b>487,828</b>	-	<b>51,037</b>	-	-	-	-	<b>51,037</b>
<b>Non-financial entities and individual entrepreneurs (non- financial business activity)</b>	<b>6,284</b>	-	-	-	-	-	-	-
Construction and property development	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-
Other purposes	6,284	-	-	-	-	-	-	-
Big enterprises	6,276	-	-	-	-	-	-	-
SMEs and individual entrepreneurs	8	-	-	-	-	-	-	-
<b>Rest of households</b>	<b>51,381</b>	<b>45,174</b>	-	<b>8,289</b>	<b>6,093</b>	<b>14,389</b>	<b>9,701</b>	<b>6,702</b>
Houses	47,359	45,174	-	8,289	6,093	14,389	9,701	6,702
Consumption	3,994	-	-	-	-	-	-	-
Other purposes	28	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>662,531</b>	<b>45,174</b>	<b>167,857</b>	<b>8,289</b>	<b>6,093</b>	<b>14,389</b>	<b>126,521</b>	<b>57,739</b>
<b>Minus: Value adjustments for impairment of assets not attributable to specific operations</b>	<b>(4,739)</b>	-	-	-	-	-	-	-
<b>Total</b>	<b>657,792</b>	<b>45,174</b>	<b>167,857</b>	<b>8,289</b>	<b>6,093</b>	<b>14,389</b>	<b>126,521</b>	<b>57,739</b>

## 22.5. Information on non-performing loans ratios

In view of the activities carried on by the Bank and the risk profile assumed by it, its non-performing loans ratios, measured as non-performing assets as a percentage of total credit risk, is 1.57% at 31 December 2017 (1.45% at 31 December 2016).

## 22.6. Financial assets renegotiated in the year

At 31 December 2017, the Bank had only two refinanced transactions, both of which related to a single employee and which arose due to the defaulted repayments on the loans which this employee had been granted by the Entity.

Following is a detail, by counterparty, credit risk classification and type of guarantee, of the outstanding balances of the transactions restructured and refinanced by the Bank at 31 December 2017 and 2016:

At 31 December 2017:

	Thousands of Euros						
	Normal						
	Full real estate mortgage collateral		Rest of real collateral		No real collateral		Specific coverage
	Number of operations	Gross amount	Number of operations	Gross amount	Number of operations	Gross amount	
<b>Public Administrations</b>	-	-	-	-	-	-	-
<b>Rest of legal person and individual entrepreneurs</b>	-	-	-	-	-	-	-
Which: Financing for construction and real estate development	-	-	-	-	-	-	-
<b>Rest of individual</b>	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

	Thousands of Euros						
	Special surveillance						
	Full real estate mortgage collateral		Rest of real collateral		No real collateral		Specific coverage
	Number of operations	Gross amount	Number of operations	Gross amount	Number of operations	Gross amount	
<b>Public Administrations</b>	-	-	-	-	-	-	-
<b>Rest of legal person and individual entrepreneurs</b>	-	-	-	-	-	-	-
Which: Financing for construction and real estate development	-	-	-	-	-	-	-
<b>Rest of individual</b>	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

	Thousands of Euros						
	Non-performing assets						
	Full real estate mortgage collateral		Rest of real collateral		No real collateral		Specific coverage
	Number of operations	Gross amount	Number of operations	Gross amount	Number of operations	Gross amount	
<b>Public Administrations</b>	-	-	-	-	-	-	-
<b>Rest of legal person and individual entrepreneurs</b>	-	-	-	-	-	-	-
Which: Financing for construction and real estate development	-	-	-	-	-	-	-
<b>Rest of individual</b>	2	406	-	-	-	-	104
	<b>2</b>	<b>406</b>	-	-	-	-	<b>104</b>

	Thousands of Euros						
	Total						
	Full real estate mortgage collateral		Rest of real collateral		No real collateral		Specific coverage
	Number of operations	Gross amount	Number of operations	Gross amount	Number of operations	Gross amount	
<b>Public Administrations</b>	-	-	-	-	-	-	-
<b>Rest of legal person and individual entrepreneurs</b>	-	-	-	-	-	-	-
Which: Financing for construction and real estate development	-	-	-	-	-	-	-
<b>Rest of individual</b>	2	406	-	-	-	-	104
	<b>2</b>	<b>406</b>	-	-	-	-	<b>104</b>

	Thousands of Euros						
	Normal						
	Full real estate mortgage collateral		Rest of real collateral		No real collateral		Specific coverage
	Number of operations	Gross amount	Number of operations	Gross amount	Number of operations	Gross amount	
<b>Public Administrations</b>	-	-	-	-	-	-	-
<b>Rest of legal person and individual entrepreneurs</b>	-	-	-	-	-	-	-
Which: Financing for construction and real estate development	-	-	-	-	-	-	-
<b>Rest of individual</b>	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

	Thousands of Euros						
	Special surveillance						
	Full real estate mortgage collateral		Rest of real collateral		No real collateral		Specific coverage
	Number of operations	Gross amount	Number of operations	Gross amount	Number of operations	Gross amount	
<b>Public Administrations</b>	-	-	-	-	-	-	-
<b>Rest of legal person and individual entrepreneurs</b>	-	-	-	-	-	-	-
Which: Financing for construction and real estate development	-	-	-	-	-	-	-
<b>Rest of individual</b>	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

	Thousands of Euros						
	Non-performing assets						
	Full real estate mortgage collateral		Rest of real collateral		No real collateral		Specific coverage
	Number of operations	Gross amount	Number of operations	Gross amount	Number of operations	Gross amount	
<b>Public Administrations</b>	-	-	-	-	-	-	-
<b>Rest of legal person and individual entrepreneurs</b>	-	-	-	-	-	-	-
Which: Financing for construction and real estate development	-	-	-	-	-	-	-
<b>Rest of individual</b>	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

	Thousands of Euros						
	Total						
	Full real estate mortgage collateral		Rest of real collateral		No real collateral		Specific coverage
	Number of operations	Gross amount	Number of operations	Gross amount	Number of operations	Gross amount	
<b>Public Administrations</b>	-	-	-	-	-	-	-
<b>Rest of legal person and individual entrepreneurs</b>	-	-	-	-	-	-	-
Which: Financing for construction and real estate development	-	-	-	-	-	-	-
<b>Rest of individual</b>	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

## 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 2017 and 2016:

	Thousands of Euros					
	31 December 2017			31 December 2016		
	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
<b>1. Loans and receivables-</b>						
1.1 Loans and advances to credit institutions (Note 8)	78	-	78	146	-	146
1.2 Debt instruments (Note 8)	50,984	-	50,984	54,452	-	54,452
1.3 Loans and advances to customers (Note 8)	54,743	755	55,498	54,742	648	55,390
<b>Total debt instruments</b>	<b>105,805</b>	<b>755</b>	<b>106,560</b>	<b>109,340</b>	<b>648</b>	<b>109,988</b>
<b>2. Contingent liabilities-</b>						
2.1 Financial bank guarantees and other bonds (Note 27.1)	-	-	-	-	-	-
2.2 Documentary credits (Note 27.1)	-	-	-	-	-	-
<b>Total contingent liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>3. Other exposures-</b>						
3.1 Derivatives (Note 6.1)	-	-	-	-	-	-
3.2 Contingent commitments (Note 27.3)	-	-	-	-	-	-
<b>Total other exposures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>105,805</b>	<b>755</b>	<b>106,560</b>	<b>109,340</b>	<b>648</b>	<b>109,988</b>

Assets (secured loans) presented by the Bank in the foregoing table as “individually impaired” at 31 December 2017 and 2016 were classified on the basis of an analysis of each such transaction, taking into account factors such as the financial position and solvency of the debtors, adverse changes in the fair value of the assets, giving rise to impairment, and other evidence justifying their classification as individually impaired under current legislation.

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

All the transactions considered by the Bank to be impaired at 31 December 2017 were classified under the “Loans and Receivables” category for EUR 106,560 thousand. The transactions considered by the Bank to be impaired at 31 December 2016 were classified in “Loans and Receivables” for EUR 109,988 thousand.

## 22.8. Changes in, and distribution of, impairment losses

Following are the changes in the impairment losses due to credit risk recognized by the Bank in 2017 and 2016:

2017:

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

(\*) The total balance of "Net Additions/(Reversals) Charged/(Credited) to Income", representing a recovery of EUR 7,132 thousand, was recognized with a credit to "Impairment or Reversal of Impairment on Financial Assets Not Measured at Fair Value through Profit or Loss" (see Note 38) in the income statement for 2017.

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

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
<b>1. Impairment losses not specifically identified</b>						
1.1 Loans 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
1.2 Contingent risks -						
• Financial bank guarantees (Note 16.2)	16	118	-	-	-	134
Total Contingent Risks	16	118	-	-	-	134
1.3 Other exposures -	-	-	-	-	-	-
<b>Total</b>	<b>6,630</b>	<b>(255)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,375</b>
<b>2. Specifically identified impairment losses</b>						
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
2.2 Contingent Risks -	-	-	-	-	-	-
Total Contingent Risks	-	-	-	-	-	-
2.3 Other exposures -	-	-	-	-	-	-
<b>Total</b>	<b>107,773</b>	<b>(18,191)</b>	<b>-</b>	<b>(623)</b>	<b>239</b>	<b>89,198</b>
<b>Total impairment losses (1+2)</b>	<b>114,403</b>	<b>(18,446)</b>	<b>-</b>	<b>(623)</b>	<b>239</b>	<b>95,573</b>

(\*) 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 Losses on Financial Assets (Net)" (see Note 38) in the income statement for 2016.

(\*\*) 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 Bank due to credit risk at 31 December 2017 and 2016:

31 December 2017:

	Thousands of Euros			
	Available- For-Sale Financial Assets (Note 7)	Loans and Receivables (Note 8)	Provisions for Contingent Liabilities and Commitments (Note 16.2)	Total
<b>1. Impairment losses not specifically identified</b>				
1.1 Loans and receivables-				
• Loans and advances to credit institutions	-	-	-	-
• Debt instruments	1,102	-	-	1,102
• Loans and advances to customers	-	168	-	168
Total Loans and Receivables	1,102	168	-	1,270
1.2 Contingent Risks -				
• Financial bank guarantees	-	-	206	206
Total contingent liabilities	-	-	206	206
1.3 Other exposures -	-	-	-	-
<b>Total</b>	<b>1,102</b>	<b>168</b>	<b>206</b>	<b>1,476</b>
<b>2. Specifically identified impairment losses</b>				
2.1 Loans and receivables -				
• Loans and advances to credit institutions	-	79	-	79
• Debt instruments	-	29,253	-	29,253
• Loans and advances to customers	-	54,725	-	54,725
Total loans and receivables	-	84,057	-	84,057
2.2 Contingent Risks -	-	-	-	-
2.3. Other exposures -	-	-	-	-
<b>Total</b>	<b>-</b>	<b>84,057</b>	<b>-</b>	<b>84,057</b>
<b>Total impairment losses (1+2)</b>	<b>1,102</b>	<b>84,225</b>	<b>206</b>	<b>85,533</b>

31 December 2016:

	Thousands of Euros			
	Available-For-Sale Financial Assets (Note 7)	Loans and Receivables (Note 8)	Provisions for Contingent Liabilities and Commitments (Note 16.2)	Total
<b>1. Impairment losses not specifically identified</b>				
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	-	-	-	-
<b>Total</b>	<b>1,404</b>	<b>4,837</b>	<b>134</b>	<b>6,375</b>
<b>2. Specifically identified impairment losses</b>				
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
2.2 Contingent Risks -				
2.3. Other exposures -				
Total	-	-	-	-
<b>Total</b>	<b>-</b>	<b>89,198</b>	<b>-</b>	<b>89,198</b>
<b>Total impairment losses (1+2)</b>	<b>1,404</b>	<b>94,035</b>	<b>134</b>	<b>95,573</b>

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 2017 and 2016 the Bank had not recognized any material past-due but not impaired assets in its financial statements.

## 22.10. Write-off of impaired financial assets

At 31 December 2017 and 2016 the Bank did not have any material financial assets that, pursuant to the criteria set forth in Note 2, had been written off due to credit risk, and there were no significant changes in this connection during those years.

## 22.11. Exposure to real estate risk

The only operations granted by the Bank at 31 December 2017 and 2016 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 2017		31 December 2016	
	Gross amount	From which: Doubtful	Gross amount	From which: Doubtful
<b>Credit for house purchase -</b>				
Without mortgage guarantee	2,598	19	1,805	18
With mortgage guarantee	46,143	292	45,174	555
	48,741	301	46,979	573

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 2017 and 2016:

31 December 2017:

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

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

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 2017 or 2016 or in the years then ended.

In 2017 and 2016 no guarantees associated with financial assets owned by the Bank were executed in order to guarantee the collection thereof.

### 23. Exposure to market risk

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

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

[Interest rates risk](#)

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

[Currency](#)

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 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Money and currency markets	1,024	700
Forex products	390	465
Debt table	780	686
Variable income table	527	460
Derivatives products	260	157
Credit table	135	75
Banknotes	27	27

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

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

## 24. Liquidity risk

Liquidity risk is defined as:

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

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

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

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

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

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

Following is a detail at 31 December 2017 and 2016 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 2017:

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

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

(\*\*) Presented at fair value.

Detail at 31 December 2016:

	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
<b>Assets:</b>							
Cash, cash balances at central banks and other demand deposits	2,189,682	-	-	-	-	-	2,189,682
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	634,305	58,934	1,033	4,747	4,287	153	703,459
Loans and receivables - Loans and advances to customers	186,161	45,402	285,734	32,726	-	-	550,023
Loans and receivables - Debt instruments	-	23,299	1,924	26,024	-	4,805	56,052
<b>Total at 31 December 2016</b>	<b>3,010,148</b>	<b>1,264,706</b>	<b>1,192,824</b>	<b>1,876,046</b>	<b>824,981</b>	<b>477,816</b>	<b>8,646,521</b>
<b>Liabilities:</b>							
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	4,519,462	623,233	21	343	517	739	5,144,315
<b>Total at 31 December 2016</b>	<b>5,346,865</b>	<b>1,368,212</b>	<b>6,549</b>	<b>343</b>	<b>517</b>	<b>739</b>	<b>6,723,225</b>
<b>Difference (assets less liabilities) at 31 December 2016</b>	<b>(2,336,717)</b>	<b>(103,506)</b>	<b>1,186,275</b>	<b>1,875,703</b>	<b>824,464</b>	<b>477,077</b>	<b>1,923,296</b>

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

(\*\*) Presented at fair value.

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

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

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

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

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

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

## 25. Interest rate risk

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

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

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

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

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

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

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

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

## 26. Risk concentration

### 26.1 Risk concentration by activity and geographical area

Following is a detail, by geographical area of residence of the counterparty, type and category of financial instrument, of the distribution of the carrying amount of the Bank's financial assets at 31 December 2017 and 2016 (including valuation adjustments):

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

31 December 2017:

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

31 December 2016:

	Thousands of Euros				
	TOTAL	Spain	Rest of the European Union	America	Rest of the world
<b>Credit Institutions</b>	<b>4,811,340</b>	<b>3,376,206</b>	<b>1,356,173</b>	<b>65,737</b>	<b>13,224</b>
<b>Public Administrations</b>	<b>3,533,538</b>	<b>2,981,397</b>	<b>552,141</b>	-	-
• Central Administration	3,012,621	2,460,480	552,141	-	-
• Other	520,917	520,917	-	-	-
<b>Other Credit Institutions</b>	<b>1,204,131</b>	<b>1,121,261</b>	<b>72,793</b>	-	<b>10,077</b>
<b>Non- financial societies and individual entrepreneurs</b>	<b>165,623</b>	<b>144,525</b>	<b>21,095</b>	-	<b>3</b>
• Construction and property development	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-
• Other purposes	165,623	144,525	21,095	-	3
- Large companies	162,753	141,655	21,095	-	3
- SMEs and Individual entrepreneurs	2,870	2,870	-	-	-
<b>Rest of households and NPISHs</b>	<b>51,495</b>	<b>51,486</b>	<b>9</b>	-	-
• Houses	47,359	47,359	-	-	-
• Consumption	3,994	3,993	1	-	-
• Other purposes	142	134	8	-	-
<b>Total</b>	<b>9,766,127</b>	<b>7,674,875</b>	<b>2,002,211</b>	<b>65,737</b>	<b>23,304</b>

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

31 December 2017:

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

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

31 December 2016:

	Thousands of Euros									
	TOTAL	Autonomous communities								
		Andalucía	Aragón	Asturias	Baleares	Canarias	Cantabria	Castilla - La Mancha	Castilla León	Cataluña
<b>Credit Institutions</b>	3,376,206	101,630	67,782	-	1,805	-	277,055	46,419	-	188,345
<b>Public Administrations</b>	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	-
<b>Other Credit Institutions</b>	1,121,261	35,249	6	20	590	1	940	-	18,606	65,933
<b>Non- financial societies and individual entrepreneurs</b>	144,525	-	-	-	616	-	-	-	-	13,892
• Construction and property development	-	-	-	-	-	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-	-	-	-	-	-
• Other purposes	144,525	-	-	-	616	-	-	-	-	13,892
- Large companies	141,655	-	-	-	616	-	-	-	-	13,891
- SMEs and Individual entrepreneurs	2,870	-	-	-	-	-	-	-	-	1
<b>Rest of households</b>	51,486	-	-	-	-	-	-	356	233	-
• Houses	47,359	-	-	-	-	-	-	327	233	-
• Consumption	3,993	-	-	-	-	-	-	13	-	-
• Other purposes	134	-	-	-	-	-	-	16	-	-
<b>Total</b>	7,674,875	230,926	91,904	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
<b>Credit Institutions</b>	-	77,363	2,352,208	-	-	202,985	60,614	-	-
<b>Public Administrations</b>	-	39,195	109,398	8,100	-	50,231	-	60,055	-
• Central Administration	-	-	-	-	-	-	-	-	-
• Other	-	39,195	109,398	8,100	-	50,231	-	60,055	-
<b>Other Credit Institutions</b>	-	20,724	978,794	-	-	-	398	-	-
<b>Non-financial societies and individual entrepreneurs</b>	-	18,095	97,740	-	643	210	13,275	54	-
• Construction and property development	-	-	-	-	-	-	-	-	-
• Construction of Civil Works	-	-	-	-	-	-	-	-	-
• Other purposes	-	18,095	97,740	-	643	210	13,275	54	-
- Large companies	-	18,095	95,135	-	643	-	13,275	-	-
- SMEs and Individual entrepreneurs	-	-	2,605	-	-	210	-	54	-
<b>Rest of households</b>	-	-	50,889	-	-	7	-	1	-
• Houses	-	-	46,799	-	-	-	-	-	-
• Consumption	-	-	3,979	-	-	-	-	1	-
• Other purposes	-	-	111	-	-	7	-	-	-
<b>Total</b>	-	155,377	3,589,029	8,100	643	253,433	74,287	60,110	-

## 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 2017 and 2016:

31 December 2016:

	Thousands of Euros			
	Financial Assets Held for Trading (Note 6.1)	Available-for-Sale Financial Assets (Note 7)	Non-current assets for sale (Note 10)	Total
<b>By market listing-</b>				
Shares listed in the Spanish secondary market	284,795	12,859	-	297,654
Shares listed in secondary markets in the rest of the world	2,687	6,146	-	8,833
Unlisted shares	-	19,711	1,015	20,726
	<b>287,482</b>	<b>38,716</b>	<b>1,015</b>	<b>327,213</b>
<b>By issuer type-</b>				
Spanish financial institutions	126,759	17,511	-	144,270
Other Spanish companies	158,036	14,815	1,015	173,866
Other foreign companies	2,687	6,390	-	9,077
	<b>287,482</b>	<b>38,716</b>	<b>1,015</b>	<b>327,213</b>

31 December 2016:

	Thousands of Euros			
	Financial Assets Held for Trading (Note 6.1)	Available-for-Sale Financial Assets (Note 7)	Non-current assets for sale (Note 10)	Total
<b>By market listing-</b>				
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
	<b>151,360</b>	<b>67,519</b>	<b>15,394</b>	<b>234,273</b>
<b>By issuer type-</b>				
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
	<b>151,360</b>	<b>67,519</b>	<b>15,394</b>	<b>234,273</b>

## 27. Other significant disclosures

### 27.1 Contingent liabilities

The breakdown of the balance of “Memorandum Items – Contingent Liabilities” in the balance sheets at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Financial bank guarantees (see Note 22.2)	67,214	65,223
	<b>67,214</b>	<b>65,223</b>

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

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

The provisions made to cater for the financial guarantees provided, which were calculated using criteria similar to those applied in the calculation of the impairment of financial assets measured at amortized cost, of which amounted to EUR 206 thousand at 31 December 2017 (31 December 2016: EUR 134 thousand), were recognized under “Provisions - Provisions for Contingent Liabilities and Commitments” in the balance sheet (see Note 16).

## 27.2. Assets delivered as security

At 31 December 2017 and 2016, assets owned by the Bank had been provided as security for transactions performed by it, as well as for various liabilities and contingent liabilities assumed by the Bank. The nominal amount, of the financial assets delivered as security for these liabilities, contingent liabilities and similar items at 31 December 2017 and 2016 was as follows:

	Thousands of Euros	
	2017	2016
Spanish Public Debt clasifed as available for Sale financial Assets	194,678	336,128
Other Assets clasifed as available for Sale financial Assets	150,000	265,800
Spanish Public Debt clasifed as financial Assets Held for Trading	91,300	56,496
Issued securities by other public organisms clasifed as available for Sale financial Assets	109,500	43,801
Issued securities by other public organisms clasifed as financial Assets Held for Trading	15,000	-
Issued Public Debt by no residents public administrations clasifed as available for Sale financial Assets	475,000	-
Issued Public Debt by no residents public administrations clasifed as financial Assets Held for Trading	10,000	-
	<b>1,045,478</b>	<b>702,225</b>

At 31 December 2017 and 2016, the Bank had securities with a face value of EUR 71,233 and 49,669 thousand respectively as security for the performance of the Bank's obligations relating to transactions with the clearing and settlement services.

At 31 December 2017, the Bank had entered into repurchase agreements for securities in its portfolio and reverse repurchase agreements for a total amount of EUR 281,404 thousand (31 December 2016: EUR 193,357 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 2017 and 2016, 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 2017 and 2016 is as follow:

	Thousands of Euros	
	2017	2016
Drawable by third parties (Note 22.2):		
Public Administrations	25,000	-
Credit institutions	-	9,030
Other resident sectors	146,479	116,641
Non-resident sectors	9,984	-
	<b>181,463</b>	<b>125,671</b>
Financial asset forward purchase commitments	222	399
Regular way financial asset purchase contracts	425,888	151,390
Other contingent commitments	16,889	2,986
	<b>624,462</b>	<b>280,446</b>

### 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 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Financial instruments granted to third parties-		
Debt instruments	82,710,839	74,788,912
Equity instruments	57,001,551	46,309,628
	<b>139,712,390</b>	<b>121,098,540</b>
Other financial assets	21,811,307	18,317,952
	<b>161,523,697</b>	<b>139,416,492</b>
Conditional bills and other securities received for collection	212,749	156,829
Borrowed securities (Note 27.5)	54,644	101,798
	<b>161,791,090</b>	<b>139,675,119</b>

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

### 27.5 Financial assets lent and borrowed

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

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

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

Following is a detail of the fair value of the financial assets borrowed by the Bank at 31 December 2017 and 2016:

	Thousands of Euros	
	2017	2016
Equity instruments	6,944	-
Debt instruments	29,915	-
	<b>36,859</b>	<b>-</b>

Following is a detail of the fair value of the financial assets borrowed and lent by the Bank in securities lending transactions at 31 December 2017 and 2016:

	Thousands of Euros	
	2017	2016
<b>Securities borrowed by the Bank-</b>		
Debt instruments issued by Public sector – Spain (Note 27.4)	54,644	101,798
	<b>54,644</b>	<b>101,798</b>

### 27.6 The Bank's Customer Care Service

Set forth below is a summary of the complaints and claims received by the Bank's Customer Care Service in 2017 and 2016. Certain claims submitted to the Service were not admitted for consideration in 2017 and 2016 because they were claims that affected entities other than the Bank:

	2017	2016
Number of complaints and claims received	4	3
Number of complaints and claims not admitted for considerations	4	-
Number of complaints and claims admitted for consideration	-	1
Number of complaints and claims resolved	-	1
Number of complaints and claims resolved in favour of the complainant	-	-
Number of complaints and claims resolved against the claimant	-	1
Compensation paid to claimants (euros)	-	-
Number of complaints and claims outstanding	-	-

## 28. Interest income

The breakdown of the most important interest income earned by the Bank in 2017 and 2016, by type of instrument giving rise to it, is as follows:

	Thousands of Euros	
	2017	2016
Financial assets held for trading	17,419	22,143
Financial assets designated at fair value through profit or loss	1	25
Financial assets for sale	36,742	52,737
Loans and receivables	5,066	2,762
Derivatives – hedge accounting, interest rate risk	2,630	1,357
Interest income on financial liabilities	25,069	31,377
Other assets	2,714	705
	<b>89,641</b>	<b>111,106</b>

“Interest Income on Financial Liabilities” in the table above includes the income arising in 2017 and 2016, respectively, from the Bank’s on-balance-sheet financial liabilities that bore negative interest rates.

## 29. Interest expenses

The detail of the balance of “Interest Expenses” in the income statement for 2017 and 2016, by type of instrument giving rise to them, is as follows:

	Thousands of Euros	
	2017	2016
Financial liabilities held for trading	14,229	23,723
Financial liabilities at amortized cost	13,678	6,918
Interest Expenses on financial assets	43,185	42,193
Interest cost of pension funds (Note 35)	150	299
	<b>71,242</b>	<b>73,133</b>

“Interest Expenses on Financial Assets” in the table above includes the expenses arising in 2017 from the Bank’s on-balance-sheet financial assets that bore negative interest rates.

## 30. Income from dividends

Below is a breakdown of this caption in the income statement for 2017 and 2016:

	Thousands of Euros	
	2017	2016
Financial assets held for trading	34,708	28,366
Financial assets available for sale	4,766	5,475
	<b>39,474</b>	<b>33,841</b>

This item included EUR 27,218 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 income statement (see Note 33).

### 31. Commission income

Following is a detail of the commission income earned in 2017 and 2016, classified on the basis of the main items giving rise thereto:

	Thousands of Euros	
	2017	2016
Commissions arising from contingent liabilities (Note 27.1)	280	397
Commissions for contingent commitments	33	-
Commissions arising from collection and payment services	26,438	26,942
Commissions arising from securities services	99,072	95,236
Commissions arising from foreign exchange and foreign banknotes	348	785
Other commissions	10,115	10,909
	<b>136,286</b>	<b>134,269</b>

The balance of "Fees and Commissions Arising from Securities Services" in the foregoing table includes, inter alia, EUR 94,005 thousand earned in 2017 (2016: EUR 90,771 thousand) relating to the depository and custody services in connection with securities of third parties deposited at the Bank.

### 32. Commission expenses

Following is a detail of the commission expenses incurred in 2017 and 2016, classified on the basis of the main items giving rise thereto:

	Thousands of Euros	
	2017	2016
Commissions assigned to other entities and correspondents	6,543	8,603
Commission expenses on securities transactions	8,351	6,802
	<b>14,894</b>	<b>15,405</b>

### 33. Net gains/losses on financial assets and liabilities

The breakdown of the balance of "Gains/Losses on Financial Assets and Liabilities" in the income statement for the exercise 2017 and 2016, by type of financial instrument giving rise to them, is as follows:

	Thousands of Euros	
	2017	2016
Net gains/losses on financial assets and liabilities held for trading	(33,606)	(38,902)
Net gains/losses from unsubscribe financial assets and liabilities not valued at fair value through profit or loss		
Available-for-sale financial assets	10,636	16,470
Loans and receivables	3	41
Net gains/losses on financial assets and liabilities designated at fair value through profit or loss	(18)	(290)
Net gains/losses resulting from hedge accounting	(4,798)	(4,802)
	<b>(27,783)</b>	<b>(27,483)</b>

### 34. Other operating income

The breakdown of the balance of “Other Operating Income” in the income statement for exercise 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Rental income (Note 12)	1,173	1,214
Income from expenses charged	19,778	15,599
Other income	29,807	26,789
	<b>50,758</b>	<b>43,602</b>

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 2017 EUR 11,388 thousand (11,543 thousand in 2016) (see Note 40).

### 35. Administrative expenses – Staff Costs

The detail of “Administrative Expenses – Staff Costs” in the income statement for 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Wages and salaries	41,874	40,193
Social security costs	7,201	6,914
Insurance premiums (Note 2.11.2)	427	358
Termination Benefits (Note 2.11.4)	-	2,722
Contributions to defined contribution plans (Note 2.11.2)	898	843
Normal cost for the year of defined benefit obligations	17	14
Training expenses	170	85
Other staff costs	606	560
	<b>51,193</b>	<b>51,689</b>

In 2017 and 2016, the average number of employees at the Bank, by level, was as follows:

Professional levels	2017			2016		
	Men	Women	Total	Men	Women	Total
1 - LEV.I	4	-	4	5	-	5
1 - LEV.II	11	4	15	11	4	15
1 - LEV.III	16	13	29	16	13	29
1 - LEV.IV	31	17	48	31	15	46
1 - LEV.V	32	25	57	29	24	53
1 - LEV.VI	69	60	129	68	61	129
1 - LEV.VII	25	41	66	18	36	54
1 - LEV.VIII	35	65	100	39	66	105
1 - LEV.IX	7	16	23	6	15	21
1 - LEV.X	7	14	21	9	16	25
1 - LEV.XI	7	8	15	6	11	17
1 - LEV.XII	-	1	1	-	-	-
2 - LEV.II	6	-	6	5	-	5
2 - LEV.III	-	-	-	1	-	1
OTHERS	7	6	13	6	6	12
	<b>257</b>	<b>270</b>	<b>527</b>	<b>250</b>	<b>267</b>	<b>517</b>

The average number of people employed during the 2017 and 2016 exercises, with a disability of 33% or more, broken down by category, was as follows:

Categories	2017	2016
2 - LEV.II	1	1
	<b>1</b>	<b>1</b>

At 31 December 2017, the total number of employees was 515 (2016: 518), of whom 252 were men (2016: 251) and 263 women (2016: 267), representing 49% and 51%, respectively (48% and 52% respectively, at 31 December 2016).

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

At 31 December 2017:

	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) (*)	
Instrumented in external pension plans and/or insurance policies	188,352	195,859	(7,507)	-	-	-	(7,507)
Not instrumented in pension plans or insurance policies	-	-	-	63,229	-	63,229	63,229
<b>Total at 31 December 2017</b>	<b>188,352</b>	<b>195,859</b>	<b>(7,507)</b>	<b>63,229</b>	<b>-</b>	<b>63,229</b>	<b>55,722</b>

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

(\*\*) This amount is recognized under “Other Assets – Other” in the balance sheet as at 31 December 2017 (see Note 14.1).

At 31 December 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) (*)	
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
<b>Total at 31 December 2016</b>	<b>193,664</b>	<b>198,835</b>	<b>(5,171)</b>	<b>76,166</b>	<b>-</b>	<b>76,166</b>	<b>70,995</b>

(\*) 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 16.2).

(\*\*) This amount is recognized under “Other Assets – Other” in the balance sheet as at 31 December 2016 (see Note 14.1).

As can be seen in the foregoing table, a significant proportion of the Bank’s pension and other long-term obligations are instrumented in external pension plans or are covered by insurance policies and, therefore, in the coming years, the settlement of these obligations is not expected to have a material effect on the Bank’s future cash flows. However, the following sections include a sensitivity analysis of the impact that a change in certain variables included in the valuation would have on the amounts presented in these financial statements. In this regard, it should be noted that the average duration of the pension obligations included in the foregoing tables at 31 December 2017 was 27.56 years for assets and 11.9 for liabilities (At 31 December 2016: 28.24 and 11.35 respectively).

Following is the reconciliation of the beginning and ending balances in 2017 and 2016 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 2017:

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

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)	
<b>1. Amount at 1 January 2016</b>	<b>193,548</b>	<b>196,932</b>	<b>(3,384)</b>	<b>91,094</b>	-	<b>91,094</b>	<b>87,710</b>
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	-	-	-	-	-	-	-
<b>Amount at 31 December 2016</b>	<b>193,664</b>	<b>198,835</b>	<b>(5,171)</b>	<b>76,166</b>	-	<b>76,166</b>	<b>70,995</b>

The amount recognized by the Bank in relation to the current service cost for defined benefit plans in 2017 amounted to EUR 17 thousand. It was recognized under “Administrative Expenses - Staff Costs” in the accompanying income statement (2016: EUR 14 thousand) (See Note 35).

In addition, the Bank recognized the net amount of the expected return on plan assets and the interest cost of the value of the obligation, which amounted to EUR 150 thousand in 2017, under “Interest Expenses” in the income statement (having recognized EUR 299 thousand in the same connection under “Interest Expenses” in the income statement for 2016) (see Note 29).

In addition, the Bank recognized a charge of EUR 211 thousand under “Provisions or reversal of provisions” in the income statement for 2017 for the provisions and recoveries of provisions for pensions and similar obligations (2016: EUR 954 thousand) the detail of which is presented below (see Note 16.1):

	Thousands of Euros	
	2017	2016
Actuarial gains and losses arising from the valuation of the long-term pre-retirement obligations	19	(954)
	<b>19</b>	<b>(954)</b>

In 2017 and 2016 the Bank recognized the net amount, adjusted by the corresponding tax effect, of the actuarial gains and losses arising from the valuation of the provision for defined benefit obligations amounting to EUR 1,557 and EUR 1,202 thousand, respectively, under “Other Accumulated Comprehensive Income – Items that Will Not Be Reclassified to Profit or Loss - Actuarial gains and losses from defined benefit pension obligations” in the Bank’s equity (see Notes 2.11.2 and 17.3). The change in this equity item is presented in the accompanying statement of changes in equity.

The assumptions used in the actuarial calculations at 31 December 2017 and 2016 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 2017 and 2016:

- Mortality tables: PERM 2000-P, at 31 December 2017 and 2016.
- Discount rate:
  - For the assets, 1.17% (market discount rate) at 31 December 2017 (31 December 2016: 1.38%).
  - For the liabilities, 1% (market discount rate) at 31 December 2017 (31 December 2016: 1.20%).
- Adjustable pension increase rate: 2.5% at 31 December 2017 and 2016.
- Adjustable salary increase rate: 2.68% at 31 December 2017 and 2016.
- Expected rate of return on plan assets:
  - 1.20% for the assets included in the pension plan at 31 December 2017 (At 31 December 2016: 1.61%).
  - 1.38% for the obligations covered by the insurance policy at 31 December 2017 (At 31 December 2016: 2.15%).

Other long-term obligations at 31 December 2017 and 2016:

- Mortality tables: PERM/F 2000-P, at 31 December 2017 and 2016.
- Discount rate (market discount rate):
  - 2011 pre-retirement plan: 0.13% at 31 December 2017 and 0.23% at 31 December 2016.
  - 2012 pre-retirement plan: 0.13% at 31 December 2017 and 0.23% at 31 December 2016.
  - 2013 pre-retirement plan: 0.13% at 31 December 2017 and 0.23% at 31 December 2016.
  - 2015 pre-retirement plan: 0.13% at 31 December 2017 and 0.23% at 31 December 2016.
- Salary increase:
  - 2011 pre-retirement plan: 1.50% at 31 December 2017 and 2016.
  - 2012 pre-retirement plan: 0.00% at 31 December 2017 and 2016.
  - 2013 pre-retirement plan: 0.00% at 31 December 2017 and 2016.
  - 2015 pre-retirement plan: 0.00% at 31 December 2017 and 2016.

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 2017 and 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 2017 would give rise to a EUR 10,318 thousand reduction and a EUR 11,312 thousand increase, respectively, in the value of the obligations (At 31 December 2016: EUR 10,774 and EUR 11,827 thousands, respectively).

A 50 basis point upward/downward shift in the pension discount rate at 31 December 2017 would give rise to a EUR 10,236 thousand reduction and a EUR 11,202 thousand increase, respectively, in the value of the obligations (At 31 December 2016: EUR 10,649 and EUR 11,671 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 889 thousand reduction and a EUR 914 thousand increase, respectively at 31 December 2017 (At 31 December 2016: EUR 1,183 and EUR 1,216 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 2017, changes that might significantly affect the value of the obligations in the future are not considered likely to occur.

The breakdown of the assets allocated to the coverage of the defined benefit pension commitments and the other long-term commitments of the Bank at 31 December 2017 and 2016 shown in the previous tables is shown below, taking into account the nature of the same:

	Thousands of Euros					
	2017			2016		
	Pension obligations	Other long-term obligations	Total	Pension obligations	Other long-term obligations	Total
Pension fund	4,724	-	4,724	3,348	-	3,348
Insurance policies taken out with CASER	191,135	-	191,135	195,487	-	195,487
<b>Total</b>	<b>195,859</b>	<b>-</b>	<b>195,859</b>	<b>198,835</b>	<b>-</b>	<b>198,835</b>

The pension fund referred to in the above table is the Cecabank Employees' Pension plan ("Plan de Pensiones de los Empleados de Cecabank"), which forms part of the pension fund for the employees of the Spanish Confederation of Savings Banks. The latter comprises the defined contribution and defined benefit obligations to CECA's current and former employees which were transferred to the Bank in year 2012 (see Note 2.11). The detail, by principal asset category and related fair value, of this fund's assets at 31 December 2017 and 2016, is as follows:

	2017	2016
Quoted Spanish government debt	22.94%	23.11%
Quoted private fixed-income securities	30.07%	33.70%
Quoted equity securities	34.87%	31.29%
Cash and bank balances	10.84%	10.47%
Other assets (1)	1.28%	1.43%
	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 2017 and 2016 there were no financial assets relating to assets issued by the Bank.

Following is the detail, at 31 December 2017 and 2016, 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 Bank, together with the experience adjustments (in terms of actuarial gains and losses recognized at those dates as part of the Bank's equity):

	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 2017	188,352	195,859	(7,507)	63,229	-	63,229
<i>Actuarial gains and losses at that date</i>	<i>2,844</i>	<i>(5,068)</i>	<i>(2,224)</i>	<i>19</i>	<i>-</i>	<i>19</i>
31 December 2016	193,664	198,835	(5,171)	76,166	-	76,166
<i>Actuarial gains and losses at that date</i>	<i>7,685</i>	<i>(9,402)</i>	<i>(1,717)</i>	<i>(954)</i>	<i>-</i>	<i>(954)</i>

The Bank's best estimate of the contributions to be made to the different pension plans defined by pensions and similar obligations maintained with the Bank's current and previous staff during 2018 is EUR 16 thousand.

On the other hand, the balance of actuarial gains and losses recorded under the caption "Actuarial gains or losses on defined benefit pension plans" in the balance sheet at the beginning and at the end of the years 2017 and 2016 and of the changes therein in those years is as follows:

	Thousands of Euros
<b>Balance at 1 January 2016</b>	<b>8,260</b>
Actuarial gains and losses in 2016	1,202
Effect of the limit on the recognition of plan assets	-
<b>Balance at 31 December 2016</b>	<b>9,462</b>
Actuarial gains and losses in 2017	1,557
Effect of the limit on the recognition of plan assets	-
<b>Balance at 31 December 2017</b>	<b>11,019</b>

### 36. Administrative expenses - Other general administrative expenses

The detail of this heading in the income statements for 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Property, fixtures and supplies	3,133	3,428
IT equipment	27,852	20,807
Communications	1,673	1,596
Advertising and publicity	365	233
Technical reports	1,674	1,294
Surveillance and cash courier services	8,426	7,280
Insurance and self-insurance premiums	381	395
Outsourced administrative services	23,829	16,319
Levies and taxes	3,338	3,778
Entertainment and travel expenses	550	511
Association membership fees	1,422	1,352
External personnel	1,544	2,008
Subscriptions and publications	3,690	2,950
Other administrative expenses	1,566	1,542
	<b>79,443</b>	<b>63,493</b>

The balance of “Technical Reports” in 2017 and 2016 includes the fees paid for the audit of the financial statements of the Bank and other non-attest services, the detail being as follows:

	Thousands of Euros	
	2017	2016
Audit services	295	271
Other attest services	202	199
<b>Total audit and related services</b>	<b>497</b>	<b>470</b>
Tax counselling services	-	-
Other services	265	146
<b>Total professional services</b>	<b>265</b>	<b>146</b>
	<b>762</b>	<b>616</b>

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

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

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

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

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

In order to ensure a proper understanding of the disclosures contained in this Note, as provided for in the aforementioned applicable legislation, it should be noted that “suppliers” are considered to be only those suppliers of goods and services to the 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 2017 and 2016 required under the aforementioned legislation, in the format required by the ICAC Resolution mentioned in the foregoing paragraphs, is as follows:

	2017	2016
	Days	Days
Average period of payment to suppliers	43	37
Ratio of transaction settled	43	37
Ratio of transaction not yet settled	34	31
	Thousands of Euros	Thousands of Euros
Total payments made	88,358	89,754
Total payments outstanding	2,204	4,631

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

### 37. Other operating expenses

The breakdown of the balance of “Other Operating Expenses” in the income statement for 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Contribution to the Deposit Guarantee Fund (Note 1.11.a)	66	51
Contribution to the Single Resolution Fund (Note 1.11.b)	4,322	3,835
Other Concepts	44	163
	<b>4,432</b>	<b>4,049</b>

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

The breakdown of the balance in the income statement for 2017 and 2016 is as follows:

	Thousands of Euros	
	Net (Additions)/ Reversals (Charged)/ Credited to Income	
	2017	2016
Financial assets available for sale-		
Debts instruments (Note 22.8)	302	3,972
Equity instruments	-	(7,382)
	302	(3,410)
Loans and receivables (Note 22.8)	6,830	14,474
	6,830	14,474
	<b>7,132</b>	<b>11,064</b>

### 39. Amortization

The detail of “Amortization” in the income statement for 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Amortization of tangible assets (Note 12)	2,951	2,936
Amortization of intangible assets (Note 13)	53,883	52,652
	<b>56,834</b>	<b>55,588</b>

### 40. Related party transactions

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

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

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

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

Income received by the Bank for these services, which amounted to EUR 11,388 and 11,543 thousand in 2017 and 2016 respectively, are recognized under “Other operating income” in the income statement for the year 2017 and 2016 (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 3 and 2 thousand at 31 December 2017 and 2016, respectively. At 31 December 2017, the amount of this demand deposit was EUR 29,219 thousand (31 December 2016: EUR 23,252 thousand).

The amount of the fees received by the Bank accrued by the Spanish Confederation of Savings Banks amounted to EUR 4 thousand at December 31, 2017 (31 December 2016: EUR 5 thousand).

At 31 December 2017 and 2016, the demand deposits held by the Bank’s senior executives, the members of its Board of Directors and related entities and individuals totaled EUR 1,005 and 884 thousand respectively, and the loans granted to them amounted to EUR 695 and 760 thousand respectively. These amounts bore interest of the exercise 2017 and 2016 EUR 3 and 8 thousand euros, which were recognized under “Interest Income” and “Interest Expenses”, in the income statements for 2016, and no interest expenses were recognized in 2017 and 2016.

The breakdown of the balances arising from transactions with jointly controlled entities recognized in the balance sheets at 31 December 2017 and 2016 and in the income statements for 2017 and 2016 is as follows (Note 2.1):

	Thousands of Euros	
	2017	2016
<b>Assets:</b>		
Loans and Receivables – Loans and Advances - Customers	568	728
<b>Liabilities:</b>		
Financial liabilities at amortised cost	342	289
<b>Losses and Profits:</b>		
Other operating income	2,725	2,699
Administrative Expenses - Other administrative expenses	77	77

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 2017 and 2016.

## 41. Events after the balance sheet date

From the balance sheet date to the date on which these financial statements were authorized for issue, there were no events significantly affecting them.

## 42. Explanation added for translation to English

These financial statements are presented on the basis of the Bank of Spain Circular 4/2004. Certain accounting practices applied by the Bank that conform with the Circular may not conform with other generally accepted accounting principles.

## Appendix I – Subsidiaries included in the Group

At 31 December 2017:

Entity	Location	Line of business	Proportion of ownership Interest (%)			Thousands of Euros			
			Direct	Indirect	Total	Entity data at 31 December 2017(*)			
						Assets	Liabilities	Equity	Profit for the year
Servipagos, S.A.U.	Madrid	Provision of technical payment services	100	-	100	129	8	121	(2)
CEA Trade Services Limited (**)	Hong Kong	Foreign Trade	100	-	100	13	8	5	-
Trionis, S.C.R.L.	Brussels	Development and maintenance of the international payment services operative	78.62	-	78.62	3,934	1,956	1,978	5

(\*) These companies' financial statements at 31 December 2017 have not yet been approved by their shareholders at the respective Annual General Meetings.

(\*\*) This company is in liquidation at 31 December 2017.

At 31 December 2016:

Entity	Location	Line of business	Proportion of ownership Interest (%)			Thousands of Euros			
			Direct	Indirect	Total	Entity data at 31 December 2016			
						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	78.62	-	78.62	4,010	2,036	1,974	20

(\*) This company is in liquidation.

## Appendix II – Information for compliance with Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

### Annual Banking Report

This information is published in compliance with the provisions of Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions which, in turn, transposes Article 89 of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

Pursuant to the aforementioned legislation, credit institutions will be obliged to publish the following information on a consolidated basis relating to the end of the latest reporting period:

a) Name(s), nature of activities and geographical location:

Cecabank, S.A. (“the Bank” or “the Entity”) is a bank that was incorporated by public deed executed in Madrid on 17 October 2012. The Entity has been registered at the Mercantile Registry since 12 November 2012 and in the Bank of Spain’s Register of Credit Institutions under code 2000. Cecabank, S.A. forms part of the Cecabank Group. Its registered office is at calle Alcalá no. 27, Madrid. The Bank’s company object is:

- a) The performance of all manner of activities, operations and services inherent to the banking business in general or directly or indirectly related thereto which it is authorised to carry on by current legislation, including the provision of investment and ancillary services and the performance of insurance brokerage activities. a cualquier otra entidad pública o privada; y
- b) The provision of technological, administrative and advisory services to public authorities, as well as to any other public or private-sector entity; and
- c) The acquisition, holding, use and disposal of all types of marketable securities.

The Cecabank Group carries on its activity in Spain. However, it has two branches in London (United Kingdom) and Lisboa (Portugal), 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 264,500 thousand in 2017 and EUR 255,078 thousand in 2016.

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

At 31 December 2017, the Cecabank Group had 508 full-time employees (a further seven had reduced working hours and four worked part-time). At 31 December 2016, the Group had 509 full-time employees (a further ten 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 2017 year-end amounted EUR 108,159 thousand (2016: EUR 108,401 thousand).

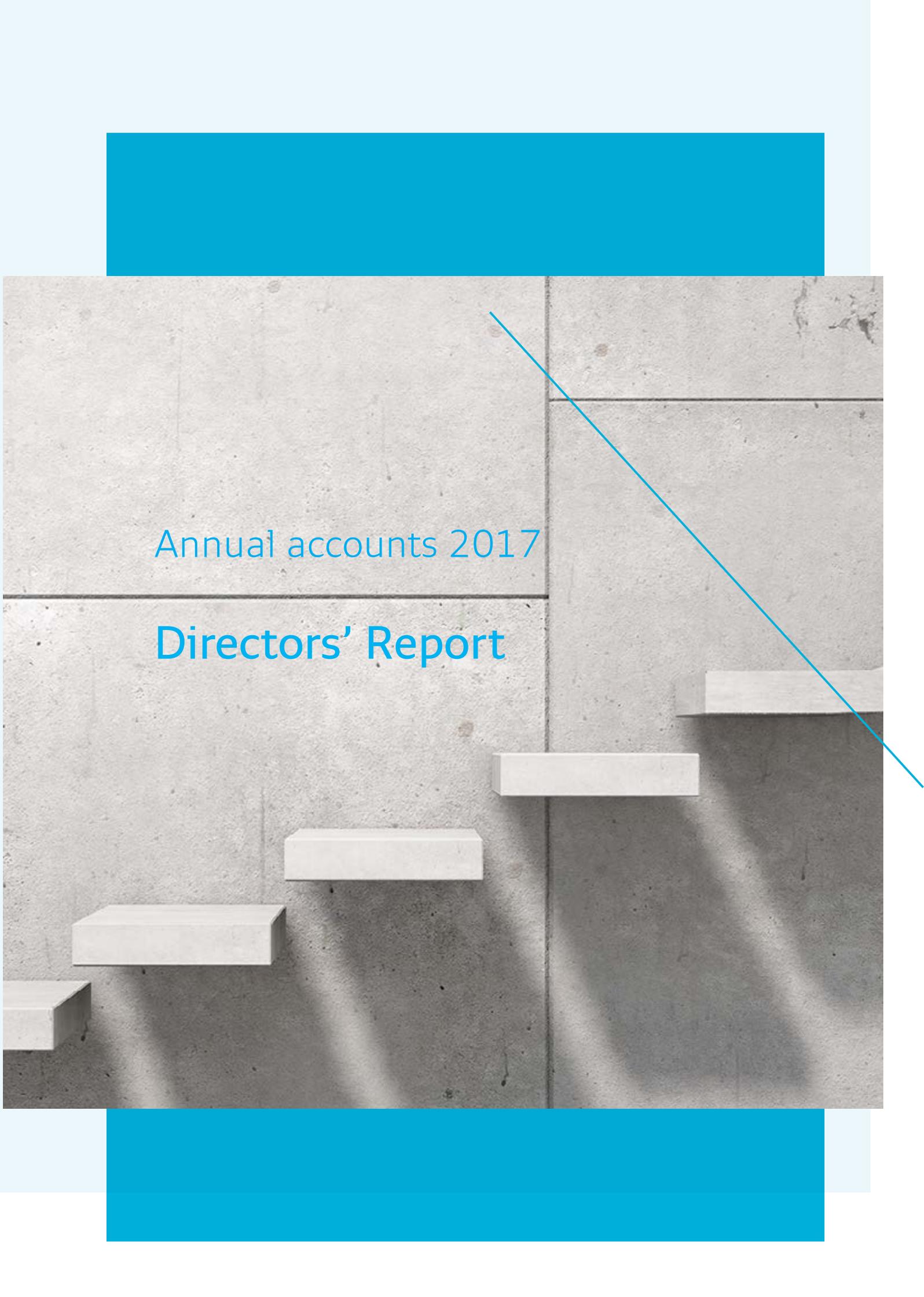
e) Tax on profit or loss:

Tax on the profit for the year ended 31 December 2017 amounted to EUR 34,940 thousand (2016: EUR 32,002 thousand).

f) fPublic subsidies received:

The entity has not received any subsidies during the year 2017 and 2016.

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 2017 by the total balance sheet, was 0.73% at 31 December 2017 (31 December 2016: 0.76%).



Annual accounts 2017

## Directors' Report

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

**Cecabank, S.A.**

Directors' Report  
for the year ended  
31 December 2017

The main aim of this directors' report is to provide information on the most significant activities carried on by Cecabank in 2017, to present the results obtained in comparison with the budget, and to disclose both the most significant matters relating to risk management and the activities that will be carried out in order to comply with the strategic lines of action defined for 2018.

**1. New 2020 Strategic Plan and business performance**

The 2020 Strategic Plan was approved by the Board of Directors of Cecabank in December 2016 and launched in January 2017 as a continuation of the 2013-2016 Strategic Plan.

Following the consolidation of the business model in the previous Strategic Plan, the 2020 Strategic Plan makes a commitment to growth while maintaining the same lines of business:

- 1) **Securities Services**, focused on maintaining leadership in depositary services, complementing the service offering of the Securities Services value chain and beginning to make inroads into the Portuguese market.
- 2) **Treasury** focusing on increasing the returns on flows from Securities Services by supplementing the value chain offering, and bolstering its leadership in the banknote business in Spain.
- 3) **Banking Services** expanding the current customer base against a backdrop of consolidation of the retail banking sector, and innovating in digital services and payment systems.

The strategy defined consists of strengthening the business of the three business lines. To this end, in each line of business the services that form part of the central scenario (maintenance and consolidation of services) were separated out and a series of incremental initiatives were identified, which pursue business growth through innovation in products/services and access to new markets.

	Central Scenario	Incremental Initiatives
 <b>Securities Services</b>	<ul style="list-style-type: none"> <li>• Depository services</li> <li>• Securities</li> </ul>	<ul style="list-style-type: none"> <li>• FADO Project (branch in Portugal)</li> <li>• Funds platform</li> <li>• Extending the value chain</li> </ul>
 <b>Treasury</b>	<ul style="list-style-type: none"> <li>• Treasury room</li> <li>• Banknotes</li> </ul>	<ul style="list-style-type: none"> <li>• Primary market access</li> <li>• Bond platform</li> <li>• Equities trade execution</li> <li>• FX Sharing</li> <li>• Securities Lending</li> </ul>
 <b>Banking Services</b>	<ul style="list-style-type: none"> <li>• Domestic and international payments</li> <li>• Treasury and Risk Support</li> <li>• Payment Services</li> <li>• Interactive Services</li> <li>• Technology Services</li> <li>• Regulatory Consulting</li> <li>• Reporting</li> <li>• Banking Training School</li> </ul>	<ul style="list-style-type: none"> <li>• Boosting digital services</li> <li>• Digital payment platform</li> <li>• Currency Exchange in payment networks</li> </ul>

The Strategic Plan also contains an ambitious Internal Transformation Plan comprising ten initiatives the purpose of which is to contribute to the achievement of business objectives by extending a new culture of change.



The Strategic Plan further includes the analysis of a series of disruptive levers which, if approved, would have a considerable impact on and give rise to significant change in the size of the Entity.



The following are worthy of mention in the first year of implementation of the 2020 Strategic Plan:

In relation to the central scenario, which includes the expected development of the various services pursuant to the assumptions envisaged in the Strategic Plan (improvement in the economic situation, gradual normalisation of interest rates, consolidation of the industry), the results obtained exceeded the budget due to the positive performance of the financial margin (increase in intermediation transactions with customers, fall in the cost of deposits and increase in tourism).

Fees and commissions were slightly below budget, although they were higher than in 2016 as a result of the inclusion of new products and services and the improved performance of Banking Services (in particular the Banking Training School, Technology Services and Payments and Clearing and Discounting Services, among others).

A process to consolidate recurring income was successfully carried out by renewing long-term depository agreements and the reduced dependence of Treasury services to fluctuations in interest rates as a result of the increase in intermediation transactions with customers.

In July 2017, with the aim of boosting the rhythm of the incremental initiatives, the Board of Directors approved an Investment Plan.

As regards Transformation Initiatives, ten internal transformation plans are being developed, and significant progress has been made in the implementation thereof by encouraging actions that affect people, processes and the environment in order to foster a culture of change aimed at the Entity's values.

Lastly, with respect to the Disruptive Levers, the Global Business Development team is leading an analysis of potential corporate transactions in practically all of Cecabank's business areas.

Following are details of the performance of the three lines of business and the services included in them and defined in the central scenario, as well as the incremental initiatives envisaged for each of them.

### 1.1 *Securities services*

The **Securities Services** business includes in the 2020 Plan two services (depository and securities services) and three incremental initiatives (the FADO project, the Funds Platform and completing the Securities Services' value chain).

Income fell below the budget for several reasons: the delay in opening the branch in Portugal, the renegotiation of customer fees and an increase in the rotation of the fund portfolios, which led to an increase in the fees and commissions paid.

■ The highlights are as follows:

- **Depository services:** the amount of the funds deposited amounted to almost EUR 108,000 million, with more than 950 vehicles (collective investment undertakings, pension funds and a private equity fund manager). Noteworthy efforts were made regarding diversification and increasing customer numbers.
- **Securities clearing, settlement and custody services:** the migration to T2S took place (entry of the Spanish market on 18 September) and covered the market's most advanced features. New products and services were designed to strengthen Cecabank's value proposal, the most noteworthy of which are the financial intermediation service, individual T2S accounts and keeping the shareholders book and the accounting records. Also, the Entity is diversifying its customer base by attracting independent management companies, private equity fund managers and broker-dealers.

■ With respect to the incremental initiatives in the Securities Services business:

- In the **FADO project**, significant progress was made in bringing the branch into operation, and it is now formally ready to commence its activities.
- In relation to the **Funds Platform**, the fund distribution platform was developed and in the last quarter of 2017 the scope of the project was extended to include a new ETF and index fund service.
- The **Complete the Securities Services' value chain** initiative is progressing well, with a distinction being made between two different lines of action:
  1. Commercial plan with particular emphasis on diversifying the customer base (investment services companies and independent management companies): a business development unit was created to perform this service; it serves the Operating Services Area and attempts to maximise commercial opportunities and cross-selling between services.
  2. Global Securities Solution (MiFID II compliance): seeks to grow the Securities Services value chain and offer to existing custody and clearing customers a solution that enables them to distribute their investment products to their end customers. Also, the Global Securities Solution was launched. This solution was designed taking into account new partners with skills that complement Cecabank's (MS, Web Financial Group and Finamatrix) and enables different sizes and types of entity to be offered a more complete service over a shorter time span.

### 1.2 *Treasury*

The **Treasury** business line includes two central scenario services (Treasury and Banknotes) and five incremental initiatives, including a new one created in November 2017 (Primary Market Access, Bond Platform, FX Sharing, Equities Trade Execution and Securities Lending Programme).

The financial margin ended the year above budget thanks to the Entity's considered strategic positioning, in view of the market situation and as a result of an increase in the marketing of intermediation transactions with customers, which also led to greater recurrence of income.

■ As regards incremental business initiatives, mention must be made of the following:

- The **Primary Market Access** initiative progressed very positively, and has managed to consolidate its activity and bring forward by a year the income envisaged in the Strategic Plan.
- The **Bond Platform** initiative made progress on the definition of the model, taking into account the impact of MiFID II and the CNMV legislation. As expected, the platform will be operational in mid-2018.
- The **Equities Trade Execution Service** initiative achieved the main milestones to enable equity trade execution for customers to be technically operational. These operations are expected to be consolidated in 2018.

- The **FX Sharing** initiative redefined the objective in order to extend the scope to other, smaller, customers with a different profile.
- The **Securities Lending** programme monitors existing legislation in order to take advantage of potential opportunities.

### 1.3. Banking services

The Banking Services business line includes nine different services (Treasury and Risk Support; Payments, Clearing and Discounting Service; International Products and Services and Development; Payment Services; Interactive Services; Technology Services; Regulatory Consulting; Financial Reporting and; the Banking Training School) and three incremental initiatives (Extension of Digital Services, Digital Payment Platform and Currency Exchange in Payment Networks).

Income from Banking Services exceeded budget by EUR 5 million due to the diversification of businesses and customers. The **CkLab** was created and encouraged as part of this business line, with the participation of Cecabank in forums and workshops. Also noteworthy are the excellent results obtained by the Banking Training School with MiFID II.

■ The highlights by service are as follows:

- In Domestic Payments, the **Payments, Clearing and Discounting Service** obtained new customers for international payments, and representation services at the Spanish National Electronic Clearing System (SNCE) were retained. A new on-line information service for the supervision and control of payment exchanges came into operation and was well received by customers.
- In the International Payments area, **International Products and Services and Development**, which is responsible for the commercial promotion of Cecabank's services through the network of branches abroad (London, Lisbon, Paris and Frankfurt). This service has captured new customers for asset intermediation and for the collection and payment service.
- The **Treasury Platform** created new services associated with the MiFID II and CVA regulatory requirements, as well as new global platform agreements.
- In **Payment Systems**, new fintech customers were attracted and the Entity's innovative new payment services (HCE, Masterpass and OEM Pays –Android Pay, Apple Pay, etc.-) are being rolled out.
- **Interactive Services** obtained contracts to extend the services provided to existing customers (ebanking services, banking transaction electronic communication rules and protocols, etc.), and capture new, mainly mobile banking customers.
- In **Technology Services** projects are being carried out to improve technological infrastructure and incident communication procedures.
- **Regulatory advisory** continues to boost advisory services and regulatory and operational consulting projects.
- The **Integrated Reporting Service** performed favourably using the Cirbe-Anacredit module and Pyramid Analysis. This Service also develops cooperative technology projects and the blockchain consortium.
- The **Banking Training School** amply exceeded the objectives set as a result of the MiFID II financial advisor courses and accreditation, which enabled progress to be made in customer diversification.

■ Mention must be made of the following incremental initiatives:

- In the **Extension of Digital Services** initiative, intensive work was performed on the development of the API platform, consent and trust services. The adaptation of the fraud monitor to the requirements of PSD2 is in progress.
- In the **Digital Payment Platform**, progress was made in the adoption by customers of Ealia, which incorporates payment in store, over the internet, "pago amigo" (friend payment) and Masterpass. Progress was also made in the certification of the iSCT platform (SEPA Instant Credit Transfers) with Iberpay and the PSD2 API platform for banks.
- The **Currency Exchange in Payment Networks** initiative facilitated the development of an on-line currency exchange platform at ATMs (which has already been installed in Cecabank ATMs) and work is under way on a commercial proposal.

1.4. Internal transformation

The Strategic Plan also includes ten **internal transformation** initiatives the purpose of which is to transform the Entity's culture to further extend Cecabank's values by acting directly on three cornerstones: people, processes and the environment.

All of these initiatives are interrelated, affect all areas of the Entity and in most cases have an impact on more than one of the defined cornerstones. Also, these initiatives work together to achieve their objectives. Mention must be made of the following milestones achieved in 2017:

- With regard to **people**, the Entity has started teleworking, flexible working, the employees' active participation channels ("Tienes la palabra" (You have the floor)), the in-house newsletter, the ambassadors network, the employee welfare programme, the social welfare programmes (Tú Eliges (You Choose), the charity campaign, Operation Kilo, etc.), training programmes in digital skills and flexible remuneration.
- In **processes**, the most noteworthy developments are the entry into T2S, the implementation of best practices in internal governance, the quality certifications, new commercial management system functionalities, the application of new methodologies (design thinking), the portfolio and the 2018 innovation budget.
- As regards the **environment**, most notable are the LinkedIn project, the new work spaces, the food bank prize, the help given to humanitarian emergencies and the blockchain consortium created jointly with Grant Thornton.

1.5. Strategic business objectives

The implementation of the Strategic Plan was complemented with the setting of strategic business objectives quantified on an annual basis, with a clear commercial orientation towards business growth and diversification of the customer base.

At Entity level, the strategic objectives defined for 2017 are summarised in the following table:

Challenges		2017 Target	
1	<b>Growth</b>	• New billings	11.5 M€
		• Trades arranged	192
2	<b>Customer diversification</b>	• New customers	30
3	<b>Business diversification</b>	<ul style="list-style-type: none"> <li>• Equities trade execution for customers.</li> <li>• New securities services.</li> <li>• New Ealia services.</li> </ul>	<ul style="list-style-type: none"> <li>• New payments systems developments.</li> <li>• New Treasury Platform functionalities.</li> </ul>
4	<b>International projection</b>	<ul style="list-style-type: none"> <li>• Securities services in Portugal</li> <li>• Capture of treasury business from London.</li> <li>• Transactional FX sharing business.</li> </ul>	<ul style="list-style-type: none"> <li>• Internationalisation of ebanking and Ealia.</li> <li>• Internationalisation of payment services and growth of Tronis.</li> </ul>

- The **New Billings** target envisages the estimated annualised billings relating to new contracts entered into in the period. The target for 2017 was EUR 11.5 million and EUR 26.7 million in new contracts were obtained. This indicator shows the extent of the main depository agreements entered into for five years and the entry of new customers.

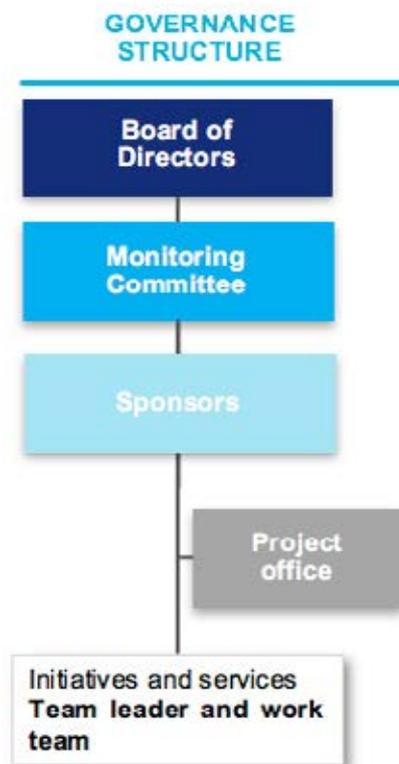
Practically all of the services achieved the new billing targets.

- As regards **Trades Arranged**, the objective was 192 trades and the year-end figure was 246, i.e. 28% above the target. Worthy of note is the intense Treasury and Treasury Platform activity which, as a result of the new services stemming from regulatory requirements (MiFID II and CVA –Credit Valuation Adjustment-), gave rise to the completion of a significant number of trades.

- The third quantitative target set, for **New Customers** was to capture 30 new customers, and a total of **39** had been achieved at 2017 year-end. The highlight was provided by the Reporting business line, which includes the Reporting, Digital Signature and Cooperation Projects services, which allow Cecabank to approach new customers and provide an entry route for the Entity’s other services.
- With regard to **Business Diversification**, new services were launched with an impact on the market such as the Global Securities Solution and various services associated with MiFID II regulatory requirements (training, reporting, etc.).
- **International projection** is progressing in line with the forecasts.

1.6. Strategic Plan governance model

The implementation of the Strategic Plan has led to the rolling out of a Strategic Plan governance model, which ensures achievement of the objectives set in the Plan. The model has various levels of monitoring:



Every quarter, the Board of Directors receives a complete monitoring report detailing the developments in the implementation of the Strategic Plan, the central scenario and the strategic initiatives. These reports are debated at Board meetings. The half-yearly report also leads to a single item on the agenda at a meeting of the Board of Directors.

In 2017, in addition to the four quarterly monitoring reports and the two meetings with single item on the agenda, seven strategic initiatives and seven central scenario services were presented to the Board of Directors.

The Strategic Plan Monitoring Committee met on eleven occasions in 2017, and reviewed the Strategic Plan on a global basis using the approved monitoring methodology. Also, all the incremental initiatives were reviewed in depth with those responsible for them at meetings of the aforementioned committee.

**2. 2017 Income Statement**

	Actual 2017 (*)	Budget 2017 (*)	Variance	
			Amount (*)	%
Financial margin (**)	95,483	86,408	9,075	11
Fee and commission and operating income (***)	167,718	167,663	55	0
<b>Gross income</b>	<b>263,201</b>	<b>254,071</b>	<b>9,130</b>	<b>4</b>
Operating expenses (including provisions) (****)	(163,429)	(170,412)	6,983	(4)
<b>Profit from operations</b>	<b>99,772</b>	<b>83,659</b>	<b>16,113</b>	<b>19</b>
Other gains/(losses)	8,384	10,000	(1,616)	(16)
<b>Profit before tax</b>	<b>108,156</b>	<b>93,659</b>	<b>14,497</b>	<b>15</b>
Income tax	(34,938)	(26,225)	(8,713)	(33)
<b>Profit for the year</b>	<b>73,218</b>	<b>67,434</b>	<b>5,784</b>	<b>9</b>

(\*) Amounts in thousands of euros.

(\*\*) Including net interest income, dividend income, gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, gains or losses on financial assets and liabilities held for trading, gains or losses on financial assets and liabilities designated at fair value through profit or loss, gains or losses from hedge accounting and exchange differences.

(\*\*\*) Including fee and commission income, fee and commission expenses, other operating income and other operating expenses.

(\*\*\*\*) Including administrative expenses, the depreciation and amortisation charge, provisions or reversal of provisions, and impairment or reversal of impairment on financial assets not measured at fair value through profit or loss.

Following is an analysis of the various headings composing the statement of profit or loss:

- **Financial margin:** this was EUR 9 million above budget, due mainly to the increase in intermediation transactions with customers, better management of liabilities and 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.
- **Fee and commission and operating income:** was in line with the budget. The budget set in this area for the first year of the 2020 Plan set an ambitious level that was almost reached.
- **Gross income:** reflects all the net income obtained from operations, which amounted to EUR 263 million, up EUR 9 million on the amount budgeted, achieving one of the main objectives of the 2020 Strategic Plan that focused on increasing the Entity's income, leading to the attainment of growing gross income.
- **Operating expenses:** staff costs were in line with budget, other general administrative expenses rose by 1%. The depreciation and amortisation charge rose by 26% as a result of the renegotiation of the main depository contracts for an additional five years and those already entered into that were not envisaged in the budget. 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 73.2 million, 9% above the budget.

**3. External credit ratings**

The ratings assigned to Cecabank by the international agencies Fitch Ratings, Moody's and Standard & Poor's at 31 December 2017 were as follows:

	Short-term	Long-term
FITCH RATINGS	F-3	BBB-
MOODY'S	P-2	Baa2
STANDARD & POOR'S	A-2	BBB

The strategic reorientation and the success of its implementation were key factors 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 comfortable liquidity position
- The strategic reorientation of the Entity
- The conservative risk profile
- Being a supplier of services of other entities
- Increase in the recurrence of income
- The leadership position in Securities Services

**4. Risk management**

Notes 22, 23, 24, 25 and 26 to the Entity's financial statements include the information relating to its risk management objectives, policies and procedures, as well as its exposure by type of risk.

**5. Significant events after the reporting period**

No significant events occurred after the reporting period.

**6. Business objectives for 2018**

At Entity level, the objectives set for 2018 are similar to those defined in 2017, although certain developments with respect to the 2017 objectives are worthy of note:

- An indicator of **external income** was included, which relates to the approved budget, in order to be able to measure the impact on actual profit or loss for the year of the commercial actions defined.
- An indicator of **contacted customers** was added for the purpose of measuring commercial intensity.
- Greater importance was given to actions related to **innovation** regarding **new markets** (geographical areas and customer segments) and the marketing of **new products/services**.

STRATEGIC BUSINESS TARGETS	MONITORING INDICATOR	2018 TARGETS
1 Earnings	Budgeted external income from commercial actions	12.8 M€
	Commercial activity	230
2	Contacted Customers	182
	Trades Arranged	15.4 M€
	New Billings	31
	New Customers	
3 Innovation	New Markets (geographical areas and customer segments)	<ul style="list-style-type: none"> <li>• Portugal</li> <li>• UK</li> <li>• Fintechs</li> <li>• SMEs</li> <li>• Management Companies</li> <li>• Distribution</li> </ul>
	New Products	<ul style="list-style-type: none"> <li>• Global Securities Sol.</li> <li>• Digital Services</li> <li>• Digital Payments</li> <li>• Digital training</li> </ul>

The largest difference between these targets and those set in 2017 is in the **increase in new billings of EUR 4 million**, rising from the EUR 11.5 million target set for 2017 to the EUR 15.4 million for 2018, with an impact on the budget for the year of EUR 12.8 million.

This increase is concentrated in two areas, financial and associative, with the reporting services and the Banking Training School's programmes, respectively.

The diversification of the Entity's customer base through the capture of new customers continues to be a commercial priority. 81% of the commercial actions performed in 2017 took place in the non-traditional market, and in 2018 the Entity will continue to be highly focused on attracting new customers, with the target of obtaining at least **31 new customers** for the Entity.

As regards innovation, in 2018 the branch in Portugal will be consolidated and the branch in London will be strengthened. In respect of new customer segments, Cecabank wishes to strengthen its position in fintechs, independent management companies and private equity, and use new products and services to enable it to generate business in SMEs, large corporates and the distribution sector.

## **7. R&D&I activities**

The Strategic Plan contains and Innovation Plan that was launched in January 2017 the purpose of which is to implement a global innovation model for the entire Entity and fully aligned with the aims of the Strategic Plan. The innovation has become a fundamental lever for boosting business growth.

In 2017 a considerable effort was made in the innovation of new products and services such as the global securities solution, the MiFID II certification programme, the fund platform, primary market access and Pyramid Analysis.

Another cornerstone of innovation in 2017 was the access to new markets. The branch in Lisbon was opened and is now fully operational, and the Treasury business is being boosted through the London branch. Internationalisation is one of the Bank's objectives and, accordingly, opportunities, mainly in Latin America and Europe, are being explored on an ongoing basis.

In research and development, significant investments were made focusing mainly on technological projects relating to treasury platforms, securities services, payments and mobility.

In a commitment to an open innovation model, the first steps were taken on the creation of ecosystems and the implementation of partnership models. In June Ck-Lab was launched as an open forum to financial institutions and fintechs for cooperation in the digitisation of the industry, and in March the first blockchain consortium in Spain came into operation with the cooperation of Grant Thornton, bringing together 33% of the financial services industry. Other innovative solutions such as the global securities solution (which is MiFID compliant) were launched in the market over a very short time span thanks to the participation of Web Financial Group and Finamatrix.

Also in this connection, cooperation agreements were entered into with Foro Fintech and AEFI to foster a digital financial society.

## **8. Treasury share transactions**

In the period from 1 January to 31 December 2017, there were no treasury shares on the Bank's balance sheet.

## **9. Payments to suppliers**

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

**Appendix: Non-financial information statement in accordance with Royal Decree-Law 18/2017**

Cecabank's non-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.
- **Corporate Social Responsibility Policy:** Cecabank is not unaffected by 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. The CSR policy is defined as the lever for directly or indirectly strengthening the business, human and material resources and Cecabank's relationships with society.
- **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, in terms of corporate governance matters, Cecabank works in accordance with industry best practices and regulatory requirements. The Entity's website contains information on the most relevant corporate governance issues in the last year.

These principles inspire the lines 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:** The 2020 Strategic Plan includes a transformation initiative, the Quality Plan, which aims to extend the customer centric and ongoing improvement culture throughout the entire organisation. Three lines of action have been defined for this purpose:

- Implement quality management systems in areas in which quality certification will help set the entity apart from competitors.
- Measure and analyse customer opinion, converting information from customers into a key support for the business in terms of decision-making.
- Establish improvement plans to:
  - Improve the quality of our processes (with a zero delay, zero non-compliance target).
  - Improve the customer experience, which forms the basis for forming long-lasting trusting relationships with customers.

Throughout 2017 the Entity worked on implementing the requirements of the new ISO 9001:2015 standard in all certified services. In October 2017 the collections and payments certification was renewed under the criteria of the new standard and the rest will be renewed at the beginning of 2018.

As it does each year, Cecabank has measured external and internal customer satisfaction. This year, aware that we must analyse, from the customer’s standpoint, the entire customer relationship with the Entity, avoiding information silos and ensuring point-to-point consistency, and placing particular emphasis on “moments of truth”, the customer satisfaction measurement model has evolved towards measuring the customer experience, and defining the customer journey in relation to our services.

In order to ascertain the defined customer journey and identify the most important aspects of each of the moments of interaction, in-depth surveys have been performed with a representative sample of customers.



With the insights we have received, questionnaires have been designed to determine our customers’ experience at each moment of interaction, detect new needs and provide specific action levers in the various business lines.

In 2017 Cecabank customers had a wow experience 86% of the time, a figure that rises to 96% in the case of new customers. This experience enjoyed by our customers places the customer satisfaction index at 8.3, with the recommended index being 8.2, meaning that 76% of our customers continue to place their trust in Cecabank for new solutions.

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

● **Assessment of information and communication technology (ICT) risk:** 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.

**By service line:****1.- Securities Services**

Cecabank fulfils its commitment to sustainable, responsible investment within the framework of the services it provides to its institutional customers. In the area of collective investment, non-financial criteria are increasingly present in investment policies, both with respect to collective investment undertakings (CIUs) and pension funds (PFs). 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. 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 is one of the main Spanish custodians and the most important depositary for collective investment undertakings and pension funds. In this respect, an increasing number of collective investment undertakings and pension funds, through decisions adopted by management companies or control committees, are incorporating environmental, social and good governance criteria into their investment policies. In order to provide its institutional customers with an excellent stand-out service, Cecabank has become a top provider at this point in the value chain of the collective investment process.

**2.- Treasury**

In a market undergoing dynamic expansion such as the socially responsible issues market in its various forms (green bonds and sustainable bonds, inter alia), the treasury desk participates actively as an investor in, and marketer of, those issues. There is an ever increasing number of issuers and types of issues driving this market, which are noteworthy for their wide geographical and even sector-related diversity.

Also, through the Cecabank branch in London, the entity participates as an observer in the Climate Bond Initiative.

**3.- Banking services**

Cecabank's business contributes to sustainability through its products and services portfolio:

- Contribution to society's digital development through more accessible and interactive payment and financial services media. The following are examples:

Cecabank's multi-purpose payment platform, Ealia, which, among other things, provides service to the P2P Bizum payments of various financial institutions, and enables customers to make contributions to NGOs using their mobiles, making donations easier and immediate.

Cecabank is an electronic invoicing provider and contributes to the migration from paper to electronic invoices, thereby saving process times for companies and large amounts of paper.

- Promotion of technological innovation and the creation of an ecosystem of cooperation relationships between financial institutions and technology companies through [Ck-Lab](#).

More information on our business model, the products offered by the Entity and its strategic plan can be found through the following links:

<https://www.cecabank.es/quienes-somos/sobre-nosotros/>  
<https://www.cecabank.es/quienes-somos/nuestros-servicios/>

The main non-financial lines of action adopted by Cecabank in relation to issues concerning the environment, social matters, employee-related issues, human rights and anti-corruption and bribery are described below.

## 1.- Environmental matters

The environmental impact of Cecabank is limited due to the characteristics of its operations. The Entity therefore does not have a specific policy for managing environmental matters. However, one of the lines of action defined in the corporate social responsibility policy is responsible and sustainable management of material resources, and specific initiatives are designed to be performed in this area.

Cecabank's 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 gas oil with natural gas.** Carried out in 2017 with an estimated energy saving of 72,022 MWh/year and prevented 20.67 tonnes of CO2 emissions per year.
- **Replacement of current lighting with LED lighting and the implementation of presence detectors.** This initiative is being implemented and is expected to be completed in the first half of 2018. The implementation of this measure is expected to produce an energy saving of 497,356 MWh/year and prevent 177,556 tonnes of CO2 emissions per year.

No relevant environmental contingencies were detected that could affect Cecabank or its activity.

The 2017-2020 Strategic Plan also includes a strategic transformation line: the Efficiency Plan. This plan will include measures to reduce consumption.

## 2. Social and employee matters

Cecabank's social impact is limited due to the fact that it is a wholesale bank operating mainly in Spain and, therefore, it does not have a specific policy to manage social issues. However, one of the lines of action defined in the corporate social responsibility policy is to implement a social action policy which, in line with the Entity's characteristics and corporate objectives, is based on the commitment of Cecabank's employees and fostering their pride in belonging to the Entity.

Lines of action of the social action policy:

- **The "You Choose" programme** which allows employees to submit social, environmental or cultural projects and Cecabank finances those chosen in a voting process open to all the employees.

In 2017 Cecabank set in motion the third edition of Cecabank's social aid programme, "You Choose". Cecabank employees submitted 19 projects and after the voting process, in which 70% of the staff participated, 7 finalists were chosen which Cecabank supported with EUR 70,000.

Finalists in the "You Choose" programme

- ALEPH-TEA
- Charlie Rivel public school and AFA
- APROMAR
- The "Menudos Corazones" children's heart foundation
- FEDAES
- The Josep Carreras Foundation
- ANPE

- **Humanitarian emergencies**, for which Cecabank undertakes donation campaigns to support those affected by humanitarian emergencies whereby it matches employees' contributions when the humanitarian emergency donation campaigns are launched.

Two humanitarian emergency donation campaigns were carried out in 2017:

- **Hurricane IRMA**. The Entity cooperated with the NGO "Acción Contra el Hambre". Cecabank employees donated EUR 4,622, and Cecabank matched the amount.
- **Mexican earthquake**. Cecabank cooperated with the Spanish Unicef Committee. Cecabank employees donated EUR 2,855 after the serious earthquakes that hit Mexico. Cecabank matched the amount.
- **Rohingya refugee crisis in Bangladesh**. In December, Cecabank made a donation of EUR 4,450 to help mitigate the humanitarian crisis involving the Rohingya refugees in Bangladesh, in cooperation with the NGO "Acción Contra el Hambre".

Cecabank's total contribution in aid for humanitarian emergencies in 2017 was EUR 11,927.

- **Donations in kind**. Collections of food, IT equipment, furniture, blood donation campaigns, Christmas fair, etc.
  - **Operation Kilo for the Food Bank**. Through a website Cecabank employees were able to help the families most in need in our community.
  - **Cecabank charity market**. In December 2017 the third edition of Cecabank's charity market took place with the participation of four organisations nominated in the "You Choose" programme (Duchenne Parent Project España, AMI 3, Fundación Fabretto and GREFA).
  - **Blood donation campaign**. Two blood donation campaigns took place in 2017 in collaboration with the Red Cross.
- **Other cooperation initiatives**. Cooperation with the Madrid food bank and other specific donations.
  - **Cooperation with the Madrid food bank**. Since inception Cecabank has cooperated with this organisation by sponsoring the "Calle Cecabank". Also, in 2017 we inaugurated the "Avenida Cecabank".

As a result of this close cooperation, in 2017 the **Madrid Food Bank gave Cecabank an award in** recognition of its contributions in money and food.

- **Cooperation in the "Their rights at stake" toy drive** by the Red Cross with the donation of EUR 1,500 to buy gender neutral and non-military toys for families without resources.
- **Cooperation in the celebrations of the fifth centenary of the birth of Jacobo de Grattis, the "Caballero de Gracia"**. In the first quarter the international organ concert cycle sponsored by Cecabank took place, as one of the events forming the celebrations of the fifth centenary of the birth of the Caballero de Gracia in 2017.

No significant contingencies relating to social issues were detected.

**With respect to the staff**, one of the lines of action defined in Cecabank's corporate social responsibility policy is the responsible and sustainable management of human resources.

Cecabank's professionals are its core asset.

The HR plan is one of the strategic transformation lines included in the 2017-2020 Strategic Plan.

**Equality**

The new plan for equality between women and men and for achieving a work-life balance was approved in 2017.

Among other issues, the equality plan regulates the functions of the Equality Committee, establishes positive action measures and includes the improvements in measures to achieve a good work-life balance agreed upon between the workers' representatives and the Entity.

The main objectives of the equality plan include ensuring the effective application of the principle of equality between women and men, encouraging greater female representation in decision-making roles or functions, improving women's access to positions of responsibility, contributing to reducing inequality and encouraging a good work-life balance. It also ensures training plans for the development of skills and competencies regardless of gender.

Indicator description	Indicator units	Figure
Total number of employees	Number	<b>515</b>
Percentage of women at the company	Percentage (%)	<b>51.17%</b>
<i>Percentage of women in management Considered to be an executive position (Level V or higher according to the collective agreement)</i>	Percentage (%)	<b>37.89%</b>

**Training**

Training at Cecabank is geared towards strengthening specialisation and the accreditation thereof by means of official certifications. Our objective is to promote the transformation of the Entity through the learning of new work methods and acquisition of new digital competencies.

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.

The Annual Development and Training Plan encompasses different knowledge areas, ranging from regulations and legislation, finance, languages and IT to management, digital competencies and health and well-being.

Indicator description	Indicator units	Figure
% of employees with various types of university degree (engineers, graduates, diploma-holders)	Percentage (%)	67.00%
Hours of employee training	Hours per employee	<b>52.97</b>
Investment in employee training	Euros per employee	<b>807</b>

**Welfare benefits**

Cecabank offers its employees certain welfare benefits to motivate and retain them and build on their loyalty. Some of the welfare benefits offered to employees in the form of financial advantages or those related to work-life balance include: flexibility, additional leave, group life insurance, group healthcare policy for employees, help with nursery fees and study grants, toys for employees' children, etc.

Indicator description	Indicator units	Figure
Company investment in welfare benefits per employee  (includes fund contributions, help for nursery fees/study grants for employees' children/employee healthcare insurance)	Euros/employee	4,035

**Health and safety**

Cecabank's employees are one of the Entity's core assets and, therefore, safety at work is fundamental to the Entity.

- We currently have a medical service consisting of a doctor and a nurse at work at the Entity on a daily basis to attend to employees.
- Occupational accidents and illness are covered by the mutual insurance company, MC Mutual.
- In 2017, 41% of the employees underwent the annual medical check-up offered by Cecabank to its employees on a voluntary basis.
- The Ckbe-Well initiative, which aims to care for employees' health, was launched. As part of this initiative, a physiotherapy service was introduced for employees at our offices and a course was given on back health.

Indicator description	Indicator units	Figure
Percentage of employees covered by collective agreement (%)	Percentage (%)	100.00%
Absenteeism rate at the company	Percentage (%)	3.57%

As a result of these policies, we can highlight that building employee loyalty has been used as a measure to retain value and knowledge. The average length of service of the staff is 22 years, which reflects this mutual commitment to long service.

**3. Human rights matters**

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.

Cecabank joined the Global Compact in 2017 and is working on disseminating its ten principles, based on human, employment and environmental rights and on combating corruption.

No risks relating to human rights have been detected with regard to Cecabank’s activities. 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.

Related indicators.

Indicator description	Indicator units	Figure
Percentage of employees covered by collective agreement (%)	Percentage (%)	100%

**4. Matters related to combating corruption and bribery.**

Cecabank imposes very stringent ethical behaviour requirements upon itself in order to prevent, as far as possible, any criminal risk for the Entity. For that purpose, it has various instruments in place to promote exemplary conduct as an entity:

- Criminal risk organisational and management system.
- Criminal risk organisational and management framework.
- Corporate code of ethics and conduct that formalises the commitment by all the professionals providing their services at the Entity to the highest standards of integrity.

The Code provides for a monitoring channel that includes complaints and accepts queries concerning interpretation. Incidences are treated as confidential.

- Anti-money laundering and terrorist financing procedures and control structure.
- Internal securities market rules of conduct.
- Policies for the provision of investment services or MiFID policies These policies include the marketing policies (Marketing Manual), the policies on executing customer orders (Order Execution Policy), the policies on safeguarding customer assets (Asset Safeguarding Policy) and the policies on the records the Entity is required to keep on the provision of investment services (Record Keeping Policy). The main objective of these policies is to ensure due compliance by the Entity with the rules of conduct and organisational requirements relating to the provision of investment services.

**Management of these risks**

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 Entity has specific units to manage and control the various risks with integrated and standardised areas of action, a decentralised structure but one with relationships between the risk management units based on the principles of coordination, cooperation and reciprocal information and the existence of three levels of control.

In addition, in order to promote and monitor the CSR Policy, Cecabank has the CSR and Sustainability Committee , which reports directly to the Management Committee.

Indicator description	Figure
Transactions assessed for risks relating to corruption	3,561
Confirmed cases of corruption and measures taken	0

**AUTHORISATION FOR ISSUE OF THE FINANCIAL STATEMENTS AND DIRECTORS' REPORT**

Certificate to attest that the Board of Directors of Cecabank, S.A., at the meeting held on 19 February 2018, authorised for issue the Financial Statements and Directors' Report of Cecabank, S.A. for 2017, which documents were transcribed, including this certificate, on the obverse of 146 sheets of officially stamped paper, signed below by all the members of the Board of Directors of Cecabank, S.A.

Madrid, 19 February 2018

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**D. Manuel Azuaga Moreno**

Non-executive deputy chairman. Spanish national identity card number (D.N.I.): 24.750.256 W

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**D. José María Méndez Álvarez-Cedrón**

Director – General Manager. Spanish national identity card number (D.N.I.): 33.858.605 Y

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**D. Francisco Botas Ratera**

Director. Spanish national identity card number (D.N.I.): 32.782.987 Y

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**D. Santiago Carbó Valverde**

Director. Spanish national identity card number (D.N.I.): 25.393.887 R

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**D. Francisco Javier García Lurueña**

Director. Spanish national identity card number (D.N.I.): 14.576.670 Y

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**D. José Manuel Gómez de Miguel**

Director. Spanish national identity card number (D.N.I.): 51.597.496 D

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**D. Víctor Manuel Iglesias Ruiz**

Director. Spanish national identity card number (D.N.I.): 25.143.242 X

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**D<sup>a</sup>. Carmen Motellón García**

Director. Spanish national identity card number (D.N.I.): 09.754.790 F

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**D. Antonio Ortega Parra**

Director. Spanish national identity card number (D.N.I.): 22.889.335 B

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**D. Jesús Ruano Mochales**

Director. Spanish national identity card number (D.N.I.): 33.518.307 Q

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**D<sup>a</sup>. Julia Salaverría Monfort**

Director. Spanish national identity card number (D.N.I.): 15.951.097 E

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**D<sup>a</sup>. María del Mar Sarro Álvarez**

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