ANNUAL FINANCIAL STATEMENTS AND DIRECTORS' REPORT
FOR THE YEAR 2017

ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET

BMCE BANK INTERNATIONAL, S.A.U.

Balance sheet at 31 December 2017

ASSETS	Notes	Thousands of euros 2017	2016
Cash in hand and at central banks and other demand deposits	**7**	**141,546**	**125,740**
Financial assets held for trading		-	-
Derivatives		-	-
Equity instruments		-	-
Debt securities		-	-
Loans and advances		-	-
Central banks		-	-
Credit entities		-	-
Customers		-	-
Token entry: loaned or delivered as collateral to guarantee right to sale or pledge		-	-
Financial assets at fair value through profit or loss		-	-
Equity instruments		-	-
Debt securities		-	-
Loans and advances		-	-
Central banks		-	-
Credit entities		-	-
Customers		-	-
Token entry: loaned or delivered as collateral to guarantee right to sale or pledge		-	-
Available-for-sale financial assets	**8**	**284**	**287**
Equity instruments		284	287
Debt securities		-	-
Loans and advances		-	-
Token entry: loaned or delivered as collateral to guarantee right to sale or pledge		-	-
Loans and receivables	**9**	**393,285**	**282,800**
Debt securities		-	-
Loans and advances		393,285	282,800
Central banks		-	-
Credit entities		248,766	155,470
Customers		144,519	127,330
Token entry: loaned or delivered as collateral to guarantee right to sale or pledge		*11,500*	9,000
Held-to-maturity investments	**10**	**116,866**	**101,175**
Token entry: loaned or delivered as collateral to guarantee right to sale or pledge		*83,716*	23,822
Derivatives – Hedge accounting		-	-
Changes in the fair value of hedged items in a portfolio with interest rate risk hedging		-	-
Investment in subsidiaries, jointly-controlled businesses and associates	**12**	**1,063**	**1,063**
Group companies		-	-
Jointly-controlled companies		-	-
Associates		1,063	1,063
Tangible assets	**13**	**2,478**	**2,487**
Property, plant and equipment		2,478	2,487
For own use		2,478	2,487
Under operating leases		-	-
Relating to social initiatives (savings banks and credit cooperatives)		-	-
Investment property		-	-
Of which: under operating leases		-	-
Token entry: acquired under finance leases		-	-
Intangible assets		-	-
Goodwill		-	-
Other intangible assets		-	-
Tax assets	**19**	**6**	**710**
Current tax assets		6	710
Deferred tax assets		-	-
Other assets	**14**	**220**	**179**
Insurance policies linked to pensions		-	-
Inventories		-	-
Other assets		220	179
Non-current assets and disposable groups of items classified as held-for-sale	**11**	-	-
TOTAL ASSETS		**655,748**	**514,441**

BMCE BANK INTERNATIONAL, S.A.U.

Balance sheet at 31 December 2017

LIABILITIES	Notes	Thousands of euros 2017	2016
Financial liabilities held for trading		**-**	**-**
Derivatives		-	-
Short positions		-	-
Deposits		-	-
Central banks		-	-
Credit entities		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities at fair value through profit or loss		**-**	**-**
Deposits		-	-
Central banks		-	-
Credit entities		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Token entry: subordinated liabilities		-	-
Financial liabilities at amortised cost	**15**	**581,585**	**445,928**
Deposits		524,566	391,803
Central banks		12,500	5,500
Credit entities		494,459	373,879
Customers		17,607	12,424
Debt securities issued		-	-
Other financial liabilities		57,019	54,125
Token entry: subordinated liabilities		-	-
Derivatives – Hedge accounting		**-**	**-**
Changes in the fair value of hedged items in a portfolio with interest rate risk hedging		**-**	**-**
Liabilities covered by insurance or reinsurance contracts		**-**	**-**
Provisions	**16**	**542**	**170**
Pensions and other post-employment defined benefit obligations		-	-
Other long-term remuneration to employees		-	-
Procedural matters and outstanding tax litigation		-	-
Commitments and guarantees granted		542	170
Remaining provisions		-	-
Tax liabilities	**19**	**381**	**-**
Current tax liabilities		381	-
Deferred tax liabilities		-	-
Equity refundable on demand		**-**	**-**
Other liabilities	**14**	**210**	**487**
Of which: social initiatives fund (only savings banks and credit cooperatives)		-	-
Liabilities and disposable groups of items classified as held-for-sale		**-**	**-**
TOTAL LIABILITIES		**582,718**	**446,585**

BMCE BANK INTERNATIONAL, S.A.U.

Balance sheet at 31 December 2017

EQUITY	Notes	Thousands of euros 2017	2016
Shareholders' equity	**17**	**73,030**	**67,856**
Share capital		40,635	40,635
Paid in capital		40,635	40,635
Capital subscribed and not paid in		-	-
Token entry: uncalled capital		-	-
Share premium		3,198	3,198
Equity instruments issued other than share capital		-	-
Equity components of composite financial instruments		-	-
Other equity instruments issued		-	-
Other items of equity		-	-
Cumulative gains		-	-
Revaluation reserves		-	-
Other reserves		23,838	19,923
(-) Own shares		-	-
Profit/(loss) for the year		5,359	4,100
(-) Interim dividends		-	-
Other comprehensive income		-	-
Items not reclassified to profit and loss		-	-
Actuarial gains or (-) losses in defined benefit pension schemes		-	-
Non-current assets and disposable groups of items classified as held-for-sale		-	-
Rest of valuation adjustments		-	-
Items that may be reclassified to profit and loss		-	-
Coverage of net investments in foreign businesses (effective portion)		-	-
Currency translation		-	-
Hedge derivatives. Cash flow hedges (effective portion)		-	-
Available-for-sale financial assets		-	-
Debt instruments		-	-
Equity instruments		-	-
Non-current assets and disposable groups of items classified as held-for-sale		-	-
TOTAL EQUITY		**73,030**	**67,856**
TOTAL EQUITY AND LIABILITIES		**655,748**	**514,441**
TOKEN ENTRY: OFF-BALANCE SHEET EXPOSURES		***115,065***	***122,020***
Guarantees granted	*18*	*75,615*	*71,284*
Contingent commitments granted	*22*	*39,417*	*50,736*

INCOME STATEMENT

BMCE BANK INTERNATIONAL, S.A.U.

Income statement
for the year ended 31 December 2017

	Notes	Thousands of euros 2017	Thousands of euros 2016
Interest income	20.a	12,131	11,692
(Interest expense)	20.a	(2,853)	(2,158)
(Expense from equity refundable on demand)		-	-
A) NET INTEREST INCOME		**9,278**	**9,534**
Dividend income		-	-
Income from fees	20.b	6,099	8,250
(Expenses from fees)	20.b	(134)	(189)
Gains or (-) losses on derecognising financial assets and liabilities not measured at fair value through profit and loss, net	20.e	1,136	(93)
Gains or (-) losses on financial assets and liabilities held for trading, net		-	-
Gains or (-) losses on financial assets and liabilities measured at fair value through profit and loss, net		-	-
Gains or (-) losses due to hedge accounting, net		-	-
Translation differences [gain or (-) loss], net	6.b.2	724	53
Other operating income		466	916
(Other operating expenses)		(2)	-
Of which: mandatory allocations to social initiative funds (only savings banks and credit cooperatives)		-	-
B) GROSS MARGIN		**17,567**	**18,471**
(Admin expenses)		(5,572)	(5,287)
(Personnel expenses)	20.c	(3,404)	(3,230)
(Other admin expenses)	20.d	(2,168)	(2,057)
(Amortisation and depreciation)	13	(82)	(65)
(Provision or (-) reversal of provisions)	16	(371)	(72)
(Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit and loss)		(3,949)	(6,936)
(Financial assets measured at cost)		-	-
(Available-for-sale financial assets)	8	(203)	-
(Loans and receivables)	9.3	(3,613)	(4,848)
(Held-to-maturity investments)	10	(133)	(2,088)
C) OPERATING PROFIT		**7,593**	**6,111**
(Impairment or (-) reversal of impairment of investments in subsidiaries, jointly-controlled businesses and associates)		-	-
(Impairment or (-) reversal of impairment of non-financial assets)		-	-
(Tangible assets)		-	-
(Intangible assets)		-	-
(Other)		-	-
Gains or (-) losses on derecognitions in accounts of non-financial assets and holdings, net		-	-
Of which: investment in subsidiaries, jointly-controlled businesses and associates		-	-
Gains or (-) losses from non-current assets and disposable groups of items classified as held.for sale not classifiable as discontinued operations		-	-
D) GAINS OR (-) LOSSES BEFORE TAXES FROM CONTINUING OPERATIONS		**7,593**	**6,111**
(Tax expenses or (-) income from continuing operations)	19	(2,234)	(2,011)
E) GAINS OR (-) LOSSES AFTER TAXES FROM CONTINUING OPERATIONS		**5,359**	**4,100**
Gains or (-) losses after taxes from discontinued operations		-	-
F) PROFIT/(LOSS) FOR THE YEAR		**5,359**	**4,100**

STATEMENT OF CHANGES IN EQUITY

- Statement of recognised income and expense
- Statement of changes in equity

BMCE BANK INTERNATIONAL, S.A.U.

Statement of changes in equity
for the year ended 31 December 2017

A) Statement of recognised income and expense for the year ended 31 December 2017

	Thousands of euros	
	2017	**2016**
Profit/(loss) for the year	**5,359**	**4,100**
Other comprehensive income	**-**	**-**
Items that will not be reclassified to profit and loss	**-**	**-**
Actuarial gains or (-) losses in defined benefit pension schemes	-	-
Non-current assets and disposable groups of items held for sale	-	-
Share in other recognised income and expense of investments in jointly-controlled businesses and associates	-	-
Rest of valuation adjustments	-	-
Income tax relating to items that will not be reclassified	-	-
Items that may be reclassified to profit and loss	**-**	**-**
Coverage of net investments in foreign businesses [effective portion]	-	-
Gains or (-) losses recognised in equity	-	-
Transferred to profit and loss	-	-
Other reclassifications	-	-
Currency translation	-	-
Gains or (-) losses from translation differences recognised in equity	-	-
Transferred to profit and loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	-	-
Gains or (-) losses recognised in equity	-	-
Transferred to profit and loss	-	-
Transferred to the initial carrying amount of the hedged items	-	-
Other reclassifications	-	-
Available-for-sale financial assets	-	-
Gains or (-) losses recognised in equity	-	-
Transferred to profit and loss	-	-
Other reclassifications	-	-
Non-current assets and disposable groups of items held for sale	-	-
Gains or (-) losses recognised in equity	-	-
Transferred to profit and loss	-	-
Other reclassifications	-	-
Income tax relating to items that may be reclassified to profit and loss	-	-
Total comprehensive income for the year	**5,359**	**4,100**

BMCE BANK INTERNATIONAL, S.A.U.

Statement of changes in equity
for the year ended 31 December 2017

B) Statement of total changes in equity for the year ended 31 December 2017

	Thousands of euros											
Sources of changes in equity	Share capital	Share premium	Equity instruments issued other than share capital	Other items of equity	Cumulative gains	evaluation reserves	Other reserves	(-) Own shares	Profit/(loss) for the year	(-) Interim dividends	Other comprehensive income	Total
Opening balance [before re-statement] 2017	40,635	3,198	-	-	19,923	-	-	-	4,100	-	-	67,856
Effect of error correction	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance 2017	40,635	3,198	-	-	19,923	-	-	-	4,100	-	-	67,856
Total comprehensive income for the year	-	-	-	-	-	-	-	-	5,359	-	-	5,359
Other changes in equity	-	-	-	-	3,915	-	-	-	(4,100)	-	-	(185)
Issuance of ordinary shares (note 17)	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Execution or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration to shareholders) (Note 5)	-	-	-	-	-	-	-	-	(185)	-	-	(185)
Own share buybacks	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of own shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components (Note 5)	-	-	-	-	3,915	-	-	-	(3,915)	-	-	-
Increase or (-) reduction in equity as a result of business combinations	-	-	-	-		-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) reductions in equity	-	-	-	-	-	-	-	-	-	-	-	-
Of which: discretionary allocation to social initiatives and funds (only savings banks and credit cooperatives)	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance 2017	40,635	3,198	-	-	23,838	-	-	-	5,359	-	-	73,030

BMCE BANK INTERNATIONAL, S.A.U.

Statement of changes in equity
for the year ended 31 December 2016

	Thousands of euros											
Sources of changes in equity	Share capital	Share premium	Equity instruments issued other than share capital	Other items of equity	Cumulative gains	evaluation reserves	Other reserves	(-) Own shares	Profit/(loss) for the year	(-) Interim dividends	Other comprehensive income	Total
Opening balance [before re-statement] 2016	25,635	3,198	-	-	14,372	-	-	-	6,061	-	-	49,266
Effect of error correction	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance 2016	25,635	3,198	-	-	14,372	-	-	-	6,061	-	-	49,266
Total comprehensive income for the year	-	-	-	-	-	-	-	-	4,100	-	-	4,100
Other changes in equity	15,000	-	-	-	5,551	-	-	-	(6,061)	-	-	14,490
Issuance of ordinary shares (note 17)	15,000	-	-	-	-	-	-	-	-	-	-	15,000
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Execution or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration to shareholders) (Note 5)	-	-	-	-	-	-	-	-	(273)	-	-	(273)
Own share buybacks	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of own shares	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity components (Note 5)	-	-	-	-	5,788	-	-	-	(5,788)	-	-	-
Increase or (-) reduction in equity as a result of business combinations	-	-	-	-		-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) reductions in equity	-	-	-	-	(237)	-	-	-	-	-	-	(237)
Of which: discretionary allocation to social initiatives and funds (only savings banks and credit cooperatives)	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance 2016	40,635	3,198	-	-	19,923	-	-	-	4,100	-	-	67,856

STATEMENT OF CASH FLOWS

BMCE BANK INTERNATIONAL, S.A.U.

Statement of cash flows
for the year ended 31 December 2017

	Notes	Thousands of euros 2017	2016
A) CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		**31,755**	**149,087**
Profit/(loss) for the year		**5,359**	**4,100**
Adjustments to obtain cash flows from (used in) operating activities		**2,243**	**9,099**
Amortisation and depreciation	13	82	65
Other adjustments		2,161	9,034
Net increase/reduction in operating assets		**(110,523)**	**22,845**
Financial assets held for trading		-	-
Financial assets at fair value through profit or loss		-	-
Available-for-sale financial assets		3	-
Loans and receivables		(110,485)	22,587
Other operating assets		(41)	258
Net increase/reduction in operating liabilities		**135,380**	**116,218**
Financial liabilities held for trading		-	-
Financial liabilities at fair value through profit or loss		-	-
Financial liabilities at amortised cost		135,657	116,064
Other operating liabilities		(277)	154
Income tax receipts/payments		**(704)**	**(3,175)**
B) CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		**(15,764)**	**(43,394)**
Payments		**(15,764)**	**(48,620)**
Tangible assets	13	(73)	(135)
Intangible assets		-	-
Investment in subsidiaries, jointly-controlled businesses and associates		-	-
Other business units		-	-
Non-current assets and liabilities classified as held-for-sale		-	-
Held-to-maturity investments		(15,691)	(48,485)
Other payments linked to investing activities		-	-
Receipts		**-**	**5,226**
Tangible assets		-	-
Intangible assets		-	-
Investment in subsidiaries, jointly-controlled businesses and associates		-	-
Other business units		-	-
Non-current assets and liabilities classified as held-for-sale		-	-
Held-to-maturity investments		-	5,226
Other receipts linked to investing activities		-	-
C) CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		**(185)**	**14,727**
Payments		**(185)**	**(273)**
Dividends	5	(185)	(273)
Subordinated liabilities		-	-
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		-	-
Other payments linked to financing activities		-	-
Receipts		**-**	**15,000**
Subordinated liabilities		-	-
Issuance of own equity instruments	17	-	15,000
Disposal of own equity instruments		-	-
Other receipts linked to financing activities		-	-
D) EFFECT OF CHANGES IN CURRENCY EXCHANGE RATES		**-**	**-**
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**15,806**	**120,420**
F) CASH AND CASH EQUIVALENTS AT START OF PERIOD		**125,740**	**5,320**
G) CASH AND CASH EQUIVALENTS AT END OF PERIOD		**141,546**	**125,740**
TOKEN ENTRY: COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		***141,546***	***125,740***
Cash	*7*	*22*	*13*
Balances equivalent to cash in central banks	*7*	*79,080*	*79,794*
Other demand deposits	*7*	*62,444*	*45,933*
Less: Bank overdrafts repayable on demand		*-*	*-*

NOTES

CONTENTS OF THE DIRECTORS' REPORT

BMCE BANK INTERNATIONAL, S.A.U.

NOTES

For the year ended
31 December 2017

1. GENERAL INFORMATION

BANQUE MAROCAINE DU COMMERCE EXTÉRIEUR INTERNATIONAL, S.A.U. (hereinafter, the Bank or the Entity) is a credit entity incorporated in Madrid (Spain) in 1993, whose operations commenced in January 1995. Its corporate purpose is to conduct all kinds of banking operations in general, as provided in its Articles of Association, and it is subject to the rules and regulations of banks operating in Spain and of credit entities in general.

On 13 December 2016, the Bank's sole shareholder agreed to change the registered name of the Entity to "BMCE BANK INTERNATIONAL, S.A.U.". This change was executed in a public document and registered in the Companies Register on 15 December 2017.

The Bank's registered offices are located in calle Serrano, 59, Madrid, and its activities in 2017 and 2016 were carried out, as well as at its Madrid office, through branches in Barcelona and Portugal, employing 41 people in 2017 (2016: 43 people).

These annual financial statements were prepared by the Board of Directors of the Bank at its meeting of 1 March 2018 and were signed by the directors whose signatures appear at the end of the statements. They are pending approval by the Sole Shareholder, but the Directors expect them to be approved without changes.

As a credit entity, the Bank is subject to certain legal regulations governing, among others, aspects such as:

- Maintenance of a minimum percentage of resources deposited at a national central bank of a country participating in the single currency (euro) to cover the minimum reserve ratio.

- Maintenance of a minimum level of capital as per requirements. In short, the regulations establish that the Bank must maintain sufficient capital so as to cover the requirements in relation to the risks assumed.

- Annual contribution to the Deposit Guarantee Fund as an additional guarantee to that provided by the Bank's capital to its creditors, aimed at securing customer deposits up to 100,000 euros in the terms established by the applicable legal standards.

- Contribution to the National Resolution Fund as established by Law 11/2015, of 18 June, along with its implementing legislation through Royal Decree 1012/2015, of 6 November, transposing into Spanish Law Directive 2014/59/EU, of 15 May, establishing a framework for the recovery and resolution of credit institutions and investment firms.

As indicated in Note 17, the Bank belongs to a group whose ultimate parent is BMCE BANK OF AFRICA (hereinafter, "the parent") whose headquarters are located in Morocco.

On 30 July 2001, the Bank of Spain declared exempt from the risk concentration limit those exposures held by the Bank in respect of its parent, in accordance with applicable regulations, which establish exceptions to the risk concentration limit for assets representing loans of Spanish credit entities in respect of their parent companies, provided said entities are excluded in the consolidated supervision of the foreign group to which they belong, the parent company thereof being an authorised credit entity in a country whose regulation on risk concentration has been declared equivalent to that of Spain by the Bank of Spain. Said exemption, granted at the Bank's request, will be valid provided it does not alter the equivalence of regulations.

2. BASIS OF PRESENTATION OF THE ANNUAL FINANCIAL STATEMENTS

a) Basis of presentation

The annual financial statements were prepared on the basis of the Bank's accounting records and are presented in accordance with the models established by Bank of Spain Circular 4/2004, of 22 December, modified by Bank of Spain Circular 4/2016, of 27 April, so as to show a true and fair view of the Bank's equity and financial position at 31 December 2017 and the results of its operations and of the changes in equity and cash flows in the year ended on said date.

In preparing the annual financial statements for 2017 the accounting principles and measurement criteria outlined in Circular 4/2004, modified by Circular 4/2016, were followed, as summarised in Note 3. All mandatory accounting principles with a significant effect have been applied in the drawing up of these annual financial statements.

The Bank's annual financial statements for 2016 were approved by the Bank's Sole Shareholder on 5 June 2017.

b) Use of judgements and estimates in preparing the annual financial statements

The information included in the annual financial statements is the responsibility of the Bank's directors. In preparing the various items of information included in these annual financial statements, the directors used judgements and estimates based on assumptions affecting the application of the accounting criteria and principles and the amounts of the assets, liabilities, income, expenses and commitments recorded herein. The main estimates used in preparing these annual financial statements refer to:

- The fair value of available-for-sale financial assets (Note 3.f).
- The impairment of financial assets (Note 3.h) and investments in subsidiaries, jointly-controlled businesses and associates (Note 3.k).
- Impairment and useful life of tangible assets (Note 3.l).
- The estimated fair value of financial assets and liabilities (Note 6.l.e).
- Estimates regarding the need or otherwise to allocate provisions and the amount, in the event, of the provisions to be allocated (Notes 3.n and 3.o).

The estimates and assumptions used are based on past experience and other factors considered to be the most reasonable at the present time, so it is possible that future events might require them to be modified in the coming years. Such modifications would be performed recognising the effects of the changes in estimates in the income statement.

c) Comparative information

For comparative purposes, the Bank's directors present, along with each of the figures disclosed in these annual financial statements for 2017, the figures for the previous year which were also prepared pursuant to Circular 4/2017. The information contained in these annual financial statements referring to 2016 is presented solely for the purpose of comparison with the information for 2017 and, consequently, does not constitute the Bank's annual financial statements for 2016.

Certain prior year (2016) amounts have been reclassified in these annual financial statements in order to render them comparable with those of the current year and easier to understand. Said reclassifications are aimed at offering a breakdown of the insurance operating margin, which was disclosed in net terms in previous years. The main reclassification was as follows:

	Thousands of euros	
	Dr	Cr
Cash in hand and at central banks and other demand deposits	38,037	
Current loans and receivables - credit entities		(38,037)

This reclassification corresponds to the amounts under documentary credit operations used, which were reclassified to other demand deposits (Note 7).

The main new developments in the regulations applying to the Bank in the previous year, which were taken into account in preparing the annual financial statements for 2016, were as follows:

- Bank of Spain Circular 4/2016, of 27 April, amending Circular 4/2017, of 22 December, issued to credit institutions in regard to public and reserved financial disclosures and model financial statements, and Circular 1/2013, of 24 May, concerning the Risk Information Centre.

The purpose of this Circular is to update Circular 4/2017, and the most material aspects in relation to these annual financial statements are as follows:

– Modification of Annex IX to adapt it to the latest developments in banking regulation, maintaining its full compatibility with the regulatory framework of IFRS.

– Adaptation to the new wording of article 39.4 of Spain's Commercial Code, introduced by Law 22/2015, of 20 July, concerning Account Auditing, which considers that all intangible assets have a defined useful life and, accordingly, may be amortised.

– Adaptation of the accounting records to Royal Decree 878/2015, of 2 October, reforming the system for the clearing, settlement and registration of marketable securities, pursuant to which the change of ownership in the sale-purchase of equity instruments will take place on the settlement date, instead of on the trading date, affecting their accounting records.

From the standpoint of these annual financial statements, the most salient change is the one resulting from the modification of Annex IX, which establishes a new method for calculating the assessment of coverage against losses due to credit risks from insolvencies. In the Bank's case, on 31 December 2016 the difference between the new and previous calculation models amounted to 703 thousand euros, an amount that implied an expense in the income statement for 2016.

- Bank of Spain Circular 5/2016, of 27 May, concerning the method of calculation for the contributions by entities belonging to the Credit Entity Deposit Guarantee Fund are proportionate to their risk profile.

  This Circular regulates the method to be used to ensure that the contributions by entities belonging to the Deposit Guarantee Fund are proportionate to their risk profile, and it was used in 2016 to calculate the contribution to the secured deposits compartment (see Note 3.r).

- Bank of Spain Circular 7/2016, of 29 November, stipulating the accounting specificities to be applied by banking foundations, and modifying Circular 4/2017, of 22 December, issued to credit institutions in regard to public and reserved financial disclosures and model financial statements, and Circular 1/2013, of 24 May, concerning the Risk Information Centre.

With regard to the change in Circular 4/2004, this regulation specifies and updates the contents of some standards and statements, in line with the latest modifications to definitions and formats for preparing financial reporting to EU regulators (known as FINREP), and these modifications did not have a material impact on these annual financial statements.

3. MEASUREMENT PRINCIPLES AND CRITERIA APPLIED

The main accounting principles and criteria applied when preparing these annual financial statements are summarised below, and are in line with the provisions of Bank of Spain Circular 4/2004, of 22 December, modified by Bank of Spain Circular 4/2016, of 27 April:

a) Going concern principle

The information provided in these annual financial statements was prepared in the assumption that the Bank's business will continue in the future, so the accounting principles were not applied with a view to determining the value of equity for the purposes of its global or partial transmission, or for a hypothetical liquidation.

b) Accrual principle

Except in relation to the statement of cash flows, these annual financial statements were prepared as a function of the actual flow of goods and services, regardless of the date of their payment or collection.

c) Offsetting

An entity may only offset assets against liabilities originating in transactions in which the entity has the contractually or legally enforceable right to set off the recognised amount, and only provided its intention is to settle on a net basis or to realise the asset and settle the liability simultaneously.

At 31 December 2017 and 2016, the Bank had not offset financial assets and liabilities. Likewise, on those dates the Bank did not have offsetting rights associated with financial assets and liabilities subject to enforceable contractual offsetting agreements and pending offsetting.

d) Foreign currency transactions

For the purpose of these annual financial statements the euro is considered to be the functional and presentation currency, and any currency other than the euro is considered to be foreign currency.

In initial recognition, foreign currency credit and debit entries were translated into euros using the exchange rate on the recognition date, understood as the exchange rate for immediate delivery. Afterwards, the following rules apply to the conversion of balances denominated in foreign currencies to euros:

- Monetary assets and liabilities are converted to euros using the exchange rates at each year-end.

- Non-monetary items measured at historic cost are converted at the exchange rate on their acquisition date.

- Income and expenses are converted applying the exchange rate on the transaction date.

- Amortisations and depreciations are converted using the exchange rate applied to the relevant asset.

Translation differences resulting from the conversion of balances in foreign currencies are booked in the income statement (at 31 December 2017 and 2016, the Bank did not have non-monetary items in foreign currency that were measured at fair value).

Note 6.1.b.2 details the Bank's exposure to foreign exchange risk.

e) Recognition of income and expenses

As a general criterion, income is recognised at the fair value of the consideration received or to be received, less discounts, deductions or price reductions. When the cash inflow is deferred over time, the fair value is determined by discounting future cash flows.

The effective interest rate method is used to recognise interest in the income statement.

Recognition of any other income in the income statement or in equity will be subject to compliance with the following premisses:

- The amount can be reliably estimated.

- The Entity is likely to receive the economic benefits.

- The information can be verified.

When uncertainties arise with regard to the collection of an amount previously recognised as income, the amount whose recoverability has ceased to be probable is recognised as an expense and not as less income.

The accrual of interest is ceased on all debt instruments individually classified as impaired by the Entity, and all those for which impairment has been calculated collectively as a result of being more than three months past due date.

f) Financial instruments

A financial instrument is a contract giving rise to a financial asset at one company and, at the same time, a financial liability or an equity instrument at another company.

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset or to exchange financial assets or liabilities with another entity under conditions that are potentially favourable to the entity. A financial asset is a contract that will or may be settled in the Entity's own equity instruments.

A financial liability is any contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity in conditions that are potentially unfavourable to the Entity. Moreover, a financial liability is a contract that will or may be settled in the Entity's own equity instruments.

The financial instruments issued by the Bank, as well as their components, are classified as financial assets or financial liabilities on the date of their initial recognition, in accordance with their economic substance when this does not coincide with their legal form.

The financial assets and financial liabilities with which the Bank normally operates are debt instruments.

f.1) Financial assets

The Entity's financial assets correspond to the cash in hand, cash in banks and central banks, loans and receivables, debt securities and equity instruments.

The Bank classifies its financial assets as follows:

- "Available-for-sale financial assets": at 31 December 2017 this heading includes sharers received by the Bank during debt restructuring processes (see Note 8).

- "Loans and receivables", including the financial assets, not being traded in an active market, nor being mandatorily measured at fair cost, whose cash flows are of a determinate or determinable amount and whose disbursement is expected to be recovered in its entirety by the Entity, except for reasons imputable to the debtor's solvency. This category includes investment in typical lending activities, such as cash amounts drawn down and pending repayment by customers in the form of loans or deposits lent to other entities, whatever their legal instrumentation, debt securities and debt assumed by buyers of goods and users of services, constituting part of the Bank's business.

- "Held-to-maturity investments" includes debt securities traded in organised markets, with fixed maturities and cash flows of a determinate or determinable amount held by the Bank, from the outset and any subsequent date, with the intention of holding them to maturity and the financial capacity to honour that intention. In this connection, the Bank underpins its financial capacity with financing lines obtained by the Group, as well as with shareholders' equity.

At 31 December 2017 and 2106, the Bank did not have any financial assets classified as either "Financial assets held for sale" or "Financial assets measured at fair value through profit and loss".

In their initial recognition on the balance sheet, financial assets are recognised at fair value. Fair value is the estimated amount for which an asset may be delivered or a liability settled between duly knowledgeable and willing parties in an arm's length transaction.

The fair value of a financial instrument is the price that would be paid for it in an organised, transparent market with reasonable depth ("trading price" or "market price"). When a certain financial instrument does not have a market price, to estimate its fair value recent transactions between similar instruments are used and, if this is not possible, measurement models sufficiently tested by the international financial community are used; taking into consideration the specific characteristics of the instrument to be measured and, in particular, the various kinds of risks associated with that instrument.

In 2017 and 2016 there were no differences in the initial recognition of assets due to differences between their transaction price and their fair value.

After their initial recognition, the financial assets included under "Available-for-sale financial assets" continue to be recognised at fair value unless the Bank does not have sufficient information to determine their fair value, in which case they are measured at acquisition cost, and the financial assets included under "Loans and receivables" and "Held-to-maturity financial investments" are measured at amortised cost. The translation differences in securities denominated in currencies other than the euro and included under these headings are recognised in accordance with the provisions of Note 3.d.

The amortised cost is the amount at which the financial instrument is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest rate is the discount rate that exactly matches the initial carrying amount of a financial instrument to the present value of all its estimated cash flows of all kinds over its remaining life. For financial instruments at fixed interest rates, the effective interest rate coincides with the interest rate established contractually on the acquisition date and, in the event, any fees that are similar in nature to an interest rate. For financial instruments at floating interest rates, the effective interest rate coincides with the rate of return applicable to all items until the first scheduled review of the benchmark interest rate.

Financial assets are derecognised from the Bank's balance sheet when the contractual rights over the financial asset's cash flow have expired or when they are transferred, provided that in said transfer the risks and benefits inherent to their ownership are also transferred, or, in the absence of their substantial transmission or retention, control of the financial asset is transferred. In the latter case, when control of the assets is not transferred they will continue to be recognised in accordance with their continued commitment, i.e. in an amount equal to the Bank's exposure to changes in the value of the financial asset transferred.

The Bank corrects the carrying value of financial assets against the income statement when there is objective evidence that there has been an impairment loss (see Note 3.h).

f.2) Financial liabilities

The Bank's financial liabilities are mainly credit entity deposits, customer deposits and other financial liabilities corresponding to payment orders pending application and tax withholdings.

At 31 December 2017 and 2016, the Bank classified all financial liabilities as "Financial liabilities at amortised cost". In their initial recognition on the balance sheet, financial liabilities are recognised at fair value. After initial recognition, all financial liabilities are measured at their amortised cost.

Financial liabilities are derecognised from the Bank's balance sheet when the obligations are extinguished or when they are re-acquired.

f.3) Gains and losses on financial instruments

Gains and losses on financial instruments are recognised depending on the heading under which they are classified.

For financial instruments measured at amortised cost, changes in fair value are recognised when the financial instrument is derecognised from the balance sheet, and for financial assets when they are impaired. Interest on financial instruments under this heading are calculated by applying the effective interest method.

g) Guarantees granted

The contracts whereby the Bank undertakes to pay specific amounts on behalf of a third party in the event of the latter not doing so are considered to be "Guarantees granted". The main contract under this heading and included in the "Token entry" disclosures at the end of the balance sheet are financial and technical guarantees and irrevocable letters of credit issued or confirmed by the Bank.

h) Impairment of financial assets

The Bank corrects the carrying value of financial assets against the income statement when there is objective evidence that there has been an impairment loss.

There is objective evidence of impairment in debt instruments, understood as loans and debt securities, when an event occurs after their initial recognition that implies a negative impact on their future cash flows.

The Bank considers as impaired assets (doubtful assets) those debt instruments, risks and contingent commitments, for which there is obvious evidence of impairment, which fundamentally refers to the existence of non-payments, defaults, refinancing, and evidence of a possibility that all of the agreed future cash flows may not be recovered.

To determine the impairment of this kind of assets, the Bank assesses the insolvency risk of de each borrower and the country risk.

Insolvency risk

To determine impairment due to insolvency risk, the Bank assesses potential impairments as follows:

- Individually, for all significant assets and for those that, while not significant, are not included in homogeneous groups of similar characteristics: age of the amounts past due, type of guarantee, sector of activity, geographic area, etc.

- Collectively: the Bank groups together those assets that have not been individually identified into homogeneous groups by counterparty, operation status, guarantee and age of amounts past due and establishes the impairments for each group (identified losses) to be recognised in the annual financial statements in accordance with a delinquency calendar based on past experience of the Bank and sector.

- In addition to the specifically identified losses, the Bank covers inherent losses incurred by unidentified risks as impairments (normal risk or under special monitoring) through generic coverage determined considering the past experience of impairment and other known circumstances on the date of the annual financial statements. This global loss is quantified by applying the parameters established by the Bank of Spain based on its experience and the historical information it holds on the financial sector in Spain. The Bank of Spain periodically updates the parameters used to determine this global loss in accordance with sector performance.

  Because the Bank does not have sufficient statistical data on its past experience of impairment losses, it has used the parameters established by the Bank of Spain.

  Accordingly, these inherent impairment losses incurred are determined by applying certain percentages to debt instrument and guarantees granted classified as normal risk, and these percentages vary according to the classification of the instruments between the various risk categories.

In the case of debt instruments measured at amortised cost, the amount of impairment losses is equal to the difference between their carrying amount and the current value of their estimated future cash flows, although the Bank considers for listed instruments that their market value may replace the current value of their cash flows, provided it is sufficiently reliable. The amount of impairment losses estimated is recognised in the income statement and used to offset the value of the assets.

The value of estimated future flows is calculated by discounting at the effective interest rate of the operation (if it is a fixed rate) or the effective interest rate of the operation on the update date (if it is a floating rate). Estimated future flows are determined based on guarantees, types of risk and circumstances in which collection will take place.

Recoveries of impairment losses on debt instruments is recognised in the income statement for the period in which the recovery takes place.

When the likelihood of recovering any amount booked is considered to be remote, said amount is derecognised from the balance sheet, notwithstanding any actions that might be taken to secure collection.

Country risk

Debt instruments not measured at fair value through profit and loss, and risk due to contingent commitments, regardless of who the customer is, are analysed to determine their credit risk in accordance with country risk. For this purpose the Entity classifies the countries to which operations are assigned into groups of risk as a function of indicators relating to their economic situation, political outlook, capacity and track record of payments, and assigns coverage percentages to each risk group established in Bank of Spain Circular 4/2017 for each classification.

At 31 December 2017, the Bank had allocated a country risk provision amounting to 872 thousand euros (2016: 727 thousand euros) (see Note 9.3).

i) Accounting hedges

The Bank had no accounting hedges in 2017 and 2016.

j) Transfer of financial assets

The Bank derecognises a transferred financial asset when all the contractual rights to receive the cash flows it generates are transmitted or when, despite maintaining these rights, it assumes the contractual obligation of paying them to the assignees, and the risks and benefits associated with ownership of the asset are substantially transferred.

In all the asset transfers performed, the Bank always substantially transfers all the risks and benefits associated with ownership of the asset. Moreover, the Bank has no ongoing involvement in the financial assets transferred; in other words, none of the contractual rights or obligations inherent to the transferred financial asset are retained and neither does it obtain any new contractual right or obligation in relation to the asset.

At 31 December 2017 and 2016, the Bank had not securitised any assets.

k) Investment in subsidiaries, jointly-controlled businesses and associates

Investments in subsidiaries, jointly-controlled businesses and associates are recognised at cost and any impairment is corrected where there is evidence thereof. To calculate impairment losses, the Bank compares the recoverable value (this being the higher between its fair value less costs to sell and value in use) with the carrying value. Impairment losses and recoveries in value evidenced by this assessment are immediately recognised in the income statement.

l) Tangible assets

Tangible assets include the amounts of buildings (banking branches and delegations), furniture, IT equipment and other installations owned by the Bank. Tangible assets are classified by their purpose under tangible assets for own use.

Tangible assets for own use are measured at cost less cumulative depreciation and, in the event, any impairment.

The acquisition or production cost of tangible assets, net of their residual value, is amortised on a straight-line basis as a function of the estimated useful life of the various components, as follows:

	Years of useful life
Buildings for own use	50
Furniture, installations, etc.	3 to 12
Data processing equipment	4

Repairs and maintenance expense not increasing the asset's useful life are charged to the income statement of the year incurred.

Tangible assets are derecognised when disposed of or permanently withdrawn from use and when future profits are not expected to be obtained from their sale, assignment or withdrawal. The difference between the sale amount and carrying amount is recognised in the income statement for the period in which the asset is derecognised.

m) Non-current assets and disposable groups of items classified as held-for-sale

Foreclosed assets classified as non-current assets for sale under "Non-current assets and disposable groups of items classified as held-for-sale" are initially recognised at their estimated cost as the lower between the carrying value of the financial assets applied and the market appraisal value of the asset received in its current state less estimated costs to sell.

All legal expenses linked to the claims and foreclosure of these assets are recognised immediately in the income statement of the foreclosure period. Registration expenses and taxes paid may be added to the initially recognised amount provided this does not lead the amount to exceed appraisal value less estimated costs to sell as indicated in the previous paragraph.

If the carrying value of the assets exceeds their fair value, net of costs to sell, the Bank adjusts the carrying value of the assets by the amount of that excess, offset against "Gains or losses from non-current assets and disposable groups of items classified as held for sale not classifiable as discontinued operations" in the income statement. In the event of an increase in the fair value of the assets, the Bank reverses the losses previously accounted for, increasing the carrying value with the limit of the previous amount on its potential impairment, offset against the aforementioned heading of "Gains or losses from non-current assets and disposable groups of items classified as held for sale not classifiable as discontinued operations" in the income statement.

n) Commitments to employees

Short-term remuneration

This kind of remuneration is measured, without updating, by the amount payable for services received, and is generally recognised as personnel expenses in the year and as an accrual account in liabilities, by the difference between the total expense and the amount already paid.

Pension obligations

In accordance with the collective bargaining agreement in place, Spanish banks are committed to supplementing the Social Security benefits received by their employees and rightful beneficiaries in the event of their retirement, permanent disability, widowhood and orphanhood. The first of these commitments is not applicable to persons employed at banks from March 1980 onwards. The Bank has arranged collective life insurance covering the risks of permanent disability, widowhood and orphanhood, or death in the line of duty.

At 31 December 2017 and 2016, the Bank had no retirement commitments with any of its current or past employees, since none of its employees had the relevant seniority.

In addition, the Bank has a commitment with its Managing Director to make contributions to a "defined contribution plan". This predetermined contribution (established as a percentage of annual remuneration) is made to a separate entity, and the Bank has no legal or effective obligation to make additional contributions if the separate entity cannot meet the remunerations related with the services provided in the current and previous years. In 2017, an expense was recognised in the income statement under this heading in the amount of 84 thousand euros (2016: 82 thousand euros). The insurance company used to cover this commitment is Mapfre Vida.

Furthermore, in accordance with the banking sector collective bargaining agreement in place (published in the Official State Gazette on 15 June 2016), the Bank arranged a complementary defined benefit scheme for current employees hired after 8 March 1980, who have worked for the Bank for at least two years. The minimum annual contribution by the Bank will be 300 euros each in 2015 and 2016, 400 euros in 2017 and 450 euros from 2018, according to the Banking sector agreement in place. The contributions made this year in relation to 2017 amounted to 11 thousand euros (15 thousand euros in 2016), recognised in the income statement 2017.

Termination benefits

In accordance with current labour legislation, companies are obliged to pay termination benefits to those employees whose employment is terminated with no justified cause. There is no redundancy plan that would make it necessary to allocate a provision in this connection.

o) Other provisions and contingencies

The Bank differentiates between provisions and contingent liabilities. The former are accounts payable covering present obligations at the reporting date as a result of past events which could give rise to a loss for the Entity, which are likely to be incurred but uncertain as to their amount and timing, while the latter are possible obligations that arise from past events, depending on the occurrence of one or more events over which the Bank does not have control.

The Bank's consolidated annual financial statements include all material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the annual financial statements, but are instead disclosed in memorandum accounts.

Provisions are quantified taking into account the best available information regarding the consequences of the event originating them, and re-estimated at each year-end, and used to tackle specific obligations for which they were initially recognised, being fully or partially reversed when said obligations cease to exist or diminish.

Legal proceedings and/or complaints underway

At year-end there were no legal proceedings or complaints filed against the Bank as a result of the ordinary course of its business.

p) Fees and commissions

The Bank classifies the fees it pays or receives as follows:

Financial fees

This type of commission, which are an integral part of the return or effective cost of a financial operation and which are received or paid in advance, are recognised generally in the income statement throughout the expected lifetime of the financing, net of direct related costs, as an adjustment to the operation's effective cost or return.

Non-financial fees

This type of commission arise from the provision of services and are recognised in the income statement throughout the period of execution of the service or, in the case of services executed through a single act, upon execution of that act.

q) Corporate income tax

Income tax expenses in the year are calculated on the basis of the economic result, before tax, increased or diminished by the permanent differences in the tax profit/loss, understood as the difference between the taxable base and the accounting profit/loss before taxes that are not reversed in subsequent periods.

Income tax expenses are recognised in the income statement, except when the transaction is registered directly in equity, in which case the relevant tax is also recognised with an offsetting entry in equity.

The tax effect of temporary differences is included in the "Deferred tax assets" and "Deferred tax liabilities" headings of the accompanying balance sheet.

Deferred tax assets and liabilities are quantified by applying to the temporary difference, or relevant credit, the tax rate expected to be recovered or settled.

Deferred tax assets recognised are reviewed at least at the end of the year, and any corrections made should they not be recoverable.

r) Deposit Guarantee Fund – National Resolution Fund

The Bank is part of the "Fondo de Garantía de Depósitos de Entidades de Crédito" (Deposit Guarantee Fund).

In its meeting of 2 December 2015, the Management Committee of the Deposit Guarantee Fund, pursuant to the provisions of article 3.2 of Royal Decree 2606/1996, of 20 December, concerning credit entity deposit guarantee funds, amended by Royal Decree 1012/2015, of 6 November, determined that for the year 2015 the annual contribution to the guarantee fund should be 1.6 per thousand of eligible deposits and the annual contribution to the securities guarantee compartment should be 2 per thousand, both on the basis of calculating the contributions existing at 31 December 2015.

Furthermore, at its meeting of 15 July 2016, the Management Committee of the Credit Entity Deposit Guarantee Fund determined that for the year 2016 the annual contribution to the securities guarantee compartment should be 1.6 per thousand, with each entity's contribution being adjusted as a function of its risk profile on the basis of deposits existing at 30 June 2016.

In 2017, the ordinary contribution to said Fund was established at 2 thousand euros (2016: 2 thousand euros).

Furthermore, Law 11/2015, of 18 June, along with its implementing legislation through Royal Decree 1012/2015, of 6 November, transposing into Spanish Law Directive 2014/59/EU, of 15 May, establishes a framework for the recovery and resolution of credit institutions and investment firms. The aforementioned law regulates the creation of the National Resolution Fund, whose financial resources should attain, by 31 December 2024, 1% of the amount of the secured deposits, through contributions from credit entities and investment services firms established in Spain.

The calculation of each entity's contribution is based on the proportion that each one of them represents over the aggregate total of the following: the entity's total liabilities, excluding shareholders' equity and the secured amount of deposits, which are later adjusted to each entity's risk profile. Accordingly, the Entity's contribution in 2017 amounted to 68 thousand euros (2016: 25 thousand euros).

s) Statement of cash flows

In the cash flow statement, the following expressions are used with the following meanings:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an immaterial risk of changes in value.

- Operating activities: the principal activities of credit entities and other activities that are not classified as investment or financing activities.

- Investing activities: the acquisition and disposal of non-current assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of equity and liabilities that are not operating activities.

t) Statement of changes in equity.

The statement of changes in equity reflects all changes in equity during the year. This information is in turn broken down into two statements:

- Statement of comprehensive income: showing the income and expense generated by the Entity as a result of its activity during the year, distinguishing those recognised as profit and loss in the income statement for the year and recognised income, in accordance with applicable standards, booked directly in equity.

- Total changes in equity: showing all the movements in equity accounts, including those resulting from changes in accounting criteria and error corrections. Consequently, the statement shows a reconciliation between the carrying value at the start and end of the financial year of all the items of which equity is comprised, grouping together the movements as a function of their nature.

4. ERRORS AND CHANGES IN ACCOUNTING ESTIMATES

In 2017 and until the date of preparing these annual financial statements there had been no material errors or changes in accounting estimates of sufficient importance to be included in the annual financial statements.

5. APPROPRIATION OF PROFIT

There follows a breakdown of the appropriation of profit from 2017 which the Bank's Board of Directors will propose to the Sole Shareholder for approval, along with the appropriation approved by the Sole Shareholder of profits from 2016:

	Thousands of euros	
	2017	2016
Profit for the year after corporate income tax	5,359	4,100
Total distributable amount	5,359	4,100
To legal reserve	536	410
To voluntary reserve	4,823	3,690
To distribution of dividends	-	-
Total distributed	5,359	4,100

6. RISK OF FINANCIAL INSTRUMENTS. CAPITAL MANAGEMENT

6.1 RISK OF FINANCIAL INSTRUMENTS.

In its day-to-day business, the Bank takes part in the development of trade and investment exchanges between Spain and Morocco and, by extension, Europe and Arab countries, providing financing and management services. Its main products and services are, in summary, post-financing of letters of credit and forfaiting, buyer credit and the granting of credit facilities for investment or operating projects.

In accordance with its corporate purpose, the Bank maintains a very prudent lending policy underpinned by analysis and credit rating tools. On the basis of internal and external reports, the Bank's Credit Committee approves or rejects operations, requesting guarantees to secure operations by small and medium-sized enterprises.

a) Credit risk

Credit risk ensues as a result of potential losses due to non-compliance with contractual obligations by the Bank's counterparties. In the case of reimbursable financing granted to third parties (in the form of credit, loans, deposits, securities or other) the risk ensues as a result of the non-recovery of the principals, interest and remaining items as per the amounts, dates and other conditions set forth in the contracts. In off-balance sheet risk, it derives from non-compliance by the counterparty of their obligations in respect of third parties, requiring the Bank to undertake them as its own pursuant to the commitment entered into.

a.1) Management and measurement of credit risk

To measure risk, the Bank uses a quantitative criterion based on a financial analysis of the company and statistical data on the sector, and a qualitative approach based on the quality of shareholders, quality of management and the Bank's experience with the owner of the risk. Internal rating tools fed by the financial data of the companies or financial institutions are used.

a.2) Monitoring

Risks are monitored daily by the Treasury Committee where any non-compliances are reported, and monthly by the Credit Monitoring Committee, created to conduct thorough supervision of credit risk.

The Bank has a risk unit that oversees the solvency of "Loans and receivables" and commitments in general.

a.3) Recovery

The Bank engages the external services of a law office to monitor and recover debts past due.

a.4) Total exposure to credit risk

The table below shows the Bank's total exposure to credit risk at the close of 2017 and 2016:

	Thousands of euros	
	2017	2016
Demand deposits at credit institutions	62,444	45,933
Loans and receivables - credit entities	248,766	155,470
Loans and receivables - customers	144,519	127,330
Held-to-maturity investments	116,866	101,175
Guarantees granted	75,615	71,284
Total risk	648,210	501,192
Contingent commitments granted	39,417	50,736
Maximum exposure	687,627	551,928

The distribution of risk by geographic area according to customers' locations is as follows:

	Thousands of euros	
	2017	2016
Europe	341,145	244,935
Africa	243,176	245,653
North America	29,981	11,827
South America	5,362	-
Asia	67,963	49,513
Total risk	687,627	551,928

The bulk of exposures to Africa featured in the above table correspond to Morocco, and in Morocco most correspond to exposures assumed with the parent. Risk operations with the parent are secured with the deposits recognised in the Bank's liabilities (see Note 21).

The breakdown of risk of customer loans and receivables by customer sector of activity at 31 December 2017 and 2016 is as shown in the table below:

	Thousands of euros					
	2017			2016		
	Risk	Distribution (%)	*Of which: Doubtful assets*	Risk	Distribution (%)	*Of which: Doubtful assets*
Industries	59,396	41.10	-	54,260	42.62	-
Building	11,245	7.78	-	16,342	12.83	-
Services:						
Retail and hospitality sector	23,396	16.19	-	4,183	3.29	*384*
Transport and communications	5,214	3.61	-	10,727	8.42	-
Other services	45,219	31.29	*5,320*	41,783	32.81	*8,571*
Loans to individuals:						
Consumer and other	49	0.03	-	35	0.03	-
Loans and receivables	144,519	100.00	*5,320*	127,330	100.00	*8,955*

As the previous table shows, at 31 December 2017 and 2016 the Bank had not granted material loans or credits to finance consumer operations.

The breakdown of risk by total amount per customer in 2017 and 2016 is as follows:

	Thousands of euros					
	2017			2016		
	Risk	Distribution (%)	*Of which: Doubtful assets*	Risk	Distribution (%)	*Of which: Doubtful assets*
More than 1,000	127,945	88.53	*4,264*	111,745	87.76	*7,997*
Between 500 and 1,000	9,271	6.42	*557*	7,423	5.83	*574*
Between 250 and 500	3,923	2.71	*499*	5,370	4.22	-
Between 125 and 250	3,146	2.18	-	1,916	1.50	*384*
Between 50 and 125	116	0.08	-	579	0.45	-
Between 25 and 50	43	0.03	-	209	0.16	-
Less than 25	75	0.05	-	88	0.07	-
Loans and receivables - customers	144,519	100.00	*5,320*	127,330	100.00	*8,955*

The heading Loans and receivables - credit entities, includes deposits loaned, credits, loans and letters of credit used, for a total amount of 248,766 thousand euros at 31 December 2017 (2016: 193,507 thousand euros).

The heading "Held-to-maturity investments" corresponds to debt securities, details of which are included in Note 10.

There follows a breakdown for each class of financial instruments of the amount of credit risk covered by each of the main collateral and other credit enhancements held by the Bank at 31 December 2017 and 2016:

	Thousands of euros						
2017	Property collateral	Other collateral	Guaranteed by Group companies	Guaranteed by financial institutions	Guaranteed by other entities	Not guaranteed	Total
Demand deposits at credit institutions	-	-	-	-	-	62,444	62,444
Loans and receivables - credit entities	-	-	-	-	-	248,766	248,766
Loans and receivables - customers	-	-	34,462	20,822	50,170	39,065	144,519
Held-to-maturity investments	-	-	-	-	-	116,866	116,866
Guarantees granted	-	1,982	1,550	8,572	-	63,511	75,615
Total risk	-	1,982	36,012	29,394	50,170	530,652	648,210
Contingent commitments granted	-	-	-	-	-	39,417	39,417
Maximum exposure	-	1,982	36,012	29,394	50,170	570,069	687,627

2016	Property collateral	Other collateral	Guaranteed by Group companies	Guaranteed by financial institutions	Guarantee d by other entities	Not guarantee d	Total
	Thousands of euros						
Demand deposits at credit institutions	-	-	-	-	-	45,933	45,933
Loans and receivables - credit entities	-	-	-	-	-	155,470	155,470
Loans and receivables - customers	-	343	11,186	19,546	32,033	64,222	127,330
Held-to-maturity investments	-	-	-	-	-	101,175	101,175
Guarantees granted	-	227	17,646	5,571	-	47,840	71,284
Total risk	-	570	28,832	25,117	32,033	414,640	501,192
Contingent commitments granted	-	-	-	-	-	50,736	50,736
Maximum exposure	-	570	28,832	25,117	32,033	465,376	551,928

The breakdown of instruments relating to credit risk, according to external agencies' ratings, is as follows:

	Thousands of euros					
2017	Rating 1	Rating 2	Rating 3	Rating 4	Not rated by any agency	Total
Demand deposits at credit institutions	38,102	15,707	3,741	-	4,894	62,444
Loans and receivables - credit entities	121,299	63,214	23,880	-	40,373	248,766
Loans and receivables - customers	7,511	58,908	44,907	-	33,193	144,519
Held-to-maturity investments	116,866	-	-	-	-	116,866
Guarantees granted	2,976	25,530	14,834	-	32,275	75,615
Total risk	286,754	163,359	87,362	-	110,735	648,210
Contingent commitments granted	-	39,417	-	-	-	39,417
Maximum exposure	286,754	202,776	87,362	-	110,735	687,627

	Thousands of euros					
2016	Rating 1	Rating 2	Rating 3	Rating 4	Not rated by any agency	Total
Demand deposits at credit institutions	9,158	20,683	610	-	15,482	45,933
Loans and receivables - credit entities	13,217	59,374	35597	-	47,282	155,470
Loans and receivables - customers	23,656	71,566	9,196	-	22,912	127,330
Held-to-maturity investments	13,411	87,764	-	-	-	101,175
Guarantees granted	3,263	40,952	3,527	-	23,542	71,284
Total risk	62,705	280,339	48,930	-	109,218	501,192
Contingent commitments granted	452	35,284	-	-	15,000	50,736
Maximum exposure	63,157	315,623	48,930	-	124,218	551,928

In relation to the information contained in the previous tables, there follows a description of each of the categories shown, all of which correspond to the external ratings from the international agencies Fitch, Standard & Poor's or Moody's.

- Rating 1: from AAA to A-
- Rating 2: from BBB to BB-
- Rating 3: from B+ to B-
- Rating 4: lower than B-
- Not rated: no rating afforded by any external agency.

The breakdown of instruments relating to credit risk, according to the Bank's internal ratings, is as follows:

	Thousands of euros					
2017	Rating A	Rating B	Rating C	Rating D	Not rated	Total
Demand deposits at credit institutions	38,102	19,413	73	-	4,856	62,444
Loans and receivables - credit entities	121,299	85,048	2,778	-	39,641	248,766
Loans and receivables - customers	7,511	77,021	27,599	-	32,388	144,519
Held-to-maturity investments	38,526	77,340	1,000	-	-	116,866
Guarantees granted	2,976	40,324	124	-	32,191	75,615
Total risk	208,414	299,146	31,574	-	109,076	648,210
Contingent commitments granted	-	39,417	-	-	-	39,417
Maximum exposure	208,414	338,563	31,574	-	109,076	687,627

	Thousands of euros					
2016	Rating A	Rating B	Rating C	Rating D	Not rated	Total
Demand deposits at credit institutions	3,833	26,007	610	-	15,483	45,933
Loans and receivables - credit entities	13,217	59,374	35,597	-	47,282	155,470
Loans and receivables - customers	23,656	63,079	17,682	-	22,913	127,330
Held-to-maturity investments	12,239	87,764	1,172	-	-	101,175
Guarantees granted	3,263	40,952	3,527	-	23,542	71,284
Total risk	56,208	277,176	58,588	-	109,220	501,192
Contingent commitments granted	452	35,284	-	-	15,000	50,736
Maximum exposure	56,660	312,460	58,588	-	124,220	551,928

In relation to the information contained in the previous tables, there follows a description of each of the categories shown:

- Rating A: Very high security.
- Rating B: High security.
- Rating C: Medium security.
- Rating D: Low security.
- Not rated: Not rated.

The table below shows the breakdown of customer loans and receivables by activity type at 31 December 2017 and 2016:

	Thousands of euros							
				Loans with collateral. Loan to value (c)				
	Total	Of which: Property collateral (b)	Of which: Rest of collateral (b)	Equal to or less than 40%	More than 40% and less than 60%	More than 60% and less than 80%	More than 80% and less than 100%	More than 100%
2017								
Public administrations	41,907	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)								
Construction and property development (including land) (d)	-	-	-	-	-	-	-	-
Civil engineering works	-	-	-	-	-	-	-	-
Rest of purposes								
Large companies (e)	73,881	-	-	-	-	-	-	-
SMEs and individual entrepreneurs (e)	28,691	-	-	-	-	-	-	-
Rest of households (f) (broken down by purpose) (g)								
Homes	-	-	-	-	-	-	-	-
Consumer	40	-	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-	-	-
TOTAL	144,519	-		-	-	-	-	-
TOKEN ENTRY								
Refinancing, refinanced and restructured operations	*9,002*	-	-	-	-	-	-	-
2016								
Public administrations	24,489	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)								
Construction and property development (including land) (d)	-	-	-	-	-	-	-	-
Civil engineering works	-	-	-	-	-	-	-	-
Rest of purposes								
Large companies (e)	89,721	-	-	-	-	-	-	-
SMEs and individual entrepreneurs (e)	13,085	-	-	-	-	-	-	-
Rest of households (f) (broken down by purpose) (g)								
Homes	-	-	-	-	-	-	-	-
Consumer	35	-	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-	-	-
TOTAL	127,330	-		-	-	-	-	-
TOKEN ENTRY								
Refinancing, refinanced and restructured operations	*8,514*	-	-	-	-	-	-	-

(a) The definition of customer loans and receivables is the one used in preparing the balance sheet. This table includes all the operations of this kind, regardless of the heading under which they are recognised in the balance sheet, except under "Non-current assets and disposable groups of items classified as held-for-sale". The amount shown for the various items is the carrying amount of the operations, in other words, after deducting any impairments as a result of hedging.

(b) It includes the carrying amount of all the transactions with property collateral or other collateral regardless of their loan to value ratio and instrumentation (mortgage, finance leases, inverse repurchase loan, etc.).

(c) Loan to value is the ratio obtained by dividing the carrying amount of each operation on the statement date by the amount of the latest appraisal value available for the collateral provided.

(d) This item includes all activities linked to construction and property development, including those relating to land financing for property development, regardless of the sector and main economic activity of the counterparty.

(e) Non-financial companies are classified as either "large companies" or "SMEs" in accordance with the definitions in Commission Recommendation 2003/361/EC, of 6 May 2003, concerning the definition of micro, small and medium-sized enterprises. The activity of individual entrepreneurs is considered to be that performed by the physical persons in conducting their business.

(f) Households, including non-profit institutions at the service of households, but excluding the business activities of individual entrepreneurs.

(g) Loans are classified by purpose in accordance with the rule 71ª.2.e) of Bank of Spain Circular 4/2017.

The tables below show the concentration of risks by activity and geographic area, in Spain, at 31 December 2017 and 2016:

	Thousands of euros				
2017	TOTAL [(a)]	Spain	Rest of the European Union	America	Rest of the world
Central banks and credit entities	326,538	20,856	99,869	17,563	188,250
Public administrations					
Central administration	97,749	18,584	50,385	-	28,780
Other public administrations	20,846	7,718	-	-	13,128
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)					
Construction and property development (including land)	-	-	-	-	-
Civil engineering works	-	-	-	-	-
Rest of purposes					
Large companies	110,561	63,707	15,961	-	30,893
SMEs and individual entrepreneurs	31,381	3,833	54	-	27,494
Rest of households (broken down by purpose)					
Homes	-	-	-	-	-
Consumer	38	38	-	-	-
Other purposes	-	-	-	-	-
TOTAL	587,113	114,736	166,269	17,563	288,545

	Thousands of euros									
		AUTONOMOUS REGIONS								
2017	TOTAL [(a)]	Andalusia	Aragón	Asturias	Balearics	Canaries	Cantabria	Castilla – La Mancha	Castilla y León	Catalonia
Central banks and credit entities	20,856	-	-	-	-	-	-	-	-	-
Public administrations										
Central administration	18,584	-	-	-	-	-	-	-	-	-
Other public administrations	7,718	-	-	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)										
Construction and property development (including land)	-	-	-	-	-	-	-	-	-	-
Civil engineering works	-	-	-	-	-	-	-	-	-	-
Rest of purposes										
Large companies	63,707	2,702	-	-	-	-	-	-	3,305	3,561
SMEs and individual entrepreneurs	3,833	1,772	-	-	-	-	-	61	-	58
Rest of households (broken down by purpose)										
Homes	-	-	-	-	-	-	-	-	-	-
Consumer	38	-	-	-	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-	-	-	-	-
TOTAL	114,736	4,474	-	-	-	-	-	61	3,305	3,619

	Thousands of euros								
	AUTONOMOUS REGIONS								
2017	Extremadura	Galicia	Madrid	Murcia	Navarra	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and credit entities	-	-	20,856	-	-	-	-	-	-
Public administrations									
Central administration	-	-	18,584	-	-	-	-	-	-
Other public administrations	-	-	3,512	2,046	-	2,160	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)									
Construction and property development (including land)	-	-	-	-	-	-	-	-	-
Civil engineering works	-	-	-	-	-	-	-	-	-
Rest of purposes									
Large companies	481	343	47,641	5,674	-	-	-	-	-
SMEs and individual entrepreneurs	236	157	1,376	-	-	173	-	-	-
Rest of households (broken down by purpose)									
Homes	-	-	-	-	-	-	-	-	-
Consumer	-	-	38	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-	-	-	-
TOTAL	717	500	92,007	7,720	-	2,333	-	-	-

(a) The definition of risk for the purposes of this table includes loans and receivables, debt securities, equity instruments, derivatives (held for sale and hedge derivatives), investments in subsidiaries, jointly-controlled companies and associates and guarantees granted, regardless of the heading under which they are included in the balance sheet, except for the heading "Non-current assets and disposable groups of items classified as held-for-sale". The amount shown for the assets is the carrying amount of the operations, in other words, after deducting any impairments as a result of hedging. The amount of the guarantees granted is the nominal amount. The breakdown of activity by geographic area is based on the country or autonomous region of residence of the borrowers, issuers of the securities and counterparties of the derivatives and guarantees granted.

	Thousands of euros				
2016	TOTAL [(a)]	Spain	Rest of the European Union	America	Rest of the world
Central banks and credit entities	210,534	23,624	35,217	-	151,692
Public administrations					
Central administration	85,246	-	51,100	-	34,146
Other public administrations	4,308	4,308	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)					
Construction and property development (including land)	-	-	-	-	-
Civil engineering works	-	-	-	-	-
Rest of purposes					
Large companies	140,586	60,762	22,027	6,626	51,171
SMEs and individual entrepreneurs	15,900	7,738	476	-	7,686
Rest of households (broken down by purpose)					
Homes	-	-	-	-	-
Consumer	35	35	-	-	-
Other purposes	-	-	-	-	-
TOTAL	456,609	96,467	108,820	6,626	244,696

	Thousands of euros									
		AUTONOMOUS REGIONS								
2016	TOTAL [(a)]	Andalusia	Aragón	Asturias	Balearics	Canaries	Cantabria	Castilla – La Mancha	Castilla y León	Catalonia
Central banks and credit entities	23,624	-	-	-	-	-	-	-	-	-
Public administrations										
Central administration	-	-	-	-	-	-	-	-	-	-
Other public administrations	4,308	-	-	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)										
Construction and property development (including land)	-	-	-	-	-	-	-	-	-	-
Civil engineering works	-	-	-	-	-	-	-	-	-	-
Rest of purposes										
Large companies	60,762	7,595	-	-	-	-	-	-	6,147	4,613
SMEs and individual entrepreneurs	7,738	267	480	-	-	-	-	319	166	611
Rest of households (broken down by purpose)										
Homes	-	-	-	-	-	-	-	-	-	-
Consumer	35	-	-	-	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-	-	-	-	-
TOTAL	96,467	7,862	480	-	-	-	-	319	6,313	5,224

	Thousands of euros								
	AUTONOMOUS REGIONS								
2016	Extremadura	Galicia	Madrid	Murcia	Navarra	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and credit entities	-	-	23,624	-	-	-	-	-	-
Public administrations									
Central administration	-	-	-	-	-	-	-	-	-
Other public administrations	-	-	-	2,104	-	2,204	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)									
Construction and property development (including land)	-	-	-	-	-	-	-	-	-
Civil engineering works	-	-	-	-	-	-	-	-	-
Rest of purposes									
Large companies	-	654	40,206	142	-	-	1,405	-	-
SMEs and individual entrepreneurs	462	332	3,698	512	-	891	-	-	-
Rest of households (broken down by purpose)									
Homes	-	-	-	-	-	-	-	-	-
Consumer	-	-	35	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-	-	-	-
TOTAL	462	986	67,563	2,758	-	3,095	1,405	-	-

(a) The definition of risk for the purposes of this table includes loans and receivables, debt securities, equity instruments, derivatives (held for sale and hedge derivatives), investments in subsidiaries, jointly-controlled companies and associates and guarantees granted, regardless of the heading under which they are included in the balance sheet, except for the heading "Non-current assets and disposable groups of items classified as held-for-sale". The amount shown for the assets is the carrying amount of the operations, in other words, after deducting any impairments as a result of hedging. The amount of the guarantees granted is the nominal amount. The breakdown of activity by geographic area is based on the country or autonomous region of residence of the borrowers, issuers of the securities and counterparties of the derivatives and guarantees granted.

a.5) Credit risk for financing of construction and property development

At 31 December 2017 and 2016, the Entity had no credit investment operations to finance construction and property development activities.

At 31 December 2017 and 2016, the Bank had not granted any homebuyer loans.

At 31 December 2017 and 2016, the Bank did not have foreclosed assets from financing aimed at construction and property development companies.

a.6) Loan and credit refinancing and restructuring policy.

In accordance with the provisions of Bank of Spain Circular 4/2016, the Bank uses the following definitions:

– Refinancing operations: granted or used for economic or legal reasons associated with current or foreseeable financial difficulties of the holder to cancel one or more operations granted by the Group, or by which outstanding payments for such operations are met in full or in part, for the purpose of enabling holders to pay their debt (principal and interest) because they are unable, or will predictably soon be unable, to fulfil their payment obligations in due time and proper form.

– Refinanced operations: operations in which payment is brought fully or partially up to date as a result of a refinancing operation by the entity itself or another entity belonging to its economic group.

– Restructured operation: the financial terms and conditions of an operation are amended for economic or legal reasons associated with current or foreseeable financial difficulties of the holder in order to facilitate payment of the debt (principal and interest) because the borrower is, or will, foreseeably become unable to comply with those terms and conditions on time and in due form, even if that change was envisaged in the contract. In any event, transactions are considered to be restructured when a debt reduction takes place, assets are received to reduce the debt or their terms and conditions are changed to extend their maturity, change the repayment table to reduce instalments in the short term or reduce their frequency, or establish or extend the principal repayment and/or interest grace period, except when it can be demonstrated that the terms and conditions were changed for reasons other than the borrowers’ financial difficulties and are similar to those terms that would be applied by other entities in the market for similar risks.

– Renewal operation: transaction arranged to replace another one granted previously by the entity, in which the holder neither has nor is expected to have financial difficulties in the future; in other words, the operation is arranged for reasons other than refinancing.

– Renegotiated operation: transaction modifying the financial conditions, in which the holder neither has nor is expected to have financial difficulties in the future; in other words, the financial conditions are modified for reasons other than restructuring.

In any event, to define an operation as renewal or renegotiation, the holders must have the capacity to obtain in the market, on the date of renewal or renegotiation, operations in a similar amount and financial conditions to those applied to it by the entity, which must be in line with those granted on that date to customers with a similar risk profile.

Below is a summary of the procedure followed by the Bank in refinancing and restructuring operations:

1.- All the financial and economic information on the company is obtained. Companies are required to provide an updated balance sheet and income statement.

2.- The financial/economic information is submitted to the credit committee, which will discuss and issue a decision on the company's viability, for which purpose a medium-term business plan is also required. All permanent members of the credit committee must approve it.

3.- The credit committee must be certain that the company's financial difficulty is temporary, due to excess debt or the non-renovation of facilities due to banking mergers. Accordingly, the Bank ensures that the company has proper commercial viability, in other words, that it maintains the previous year's level of sales along with the rest of variables of the income statement, such as EBITDA and the gross operating margin.

4.- Once approved by the credit committee a new policy must be signed or the Bank will join the rest of banks signing the syndicated loans or credit granted to the company.

At 31 December 2017 and 2016, the refinancing and restructuring operations are broken down as follows:

	Total		
	Number of operations	Gross carrying amount (thousands of euros)	Cumulative impairment or loss in fair value due to credit risk
2017			
Credit entities	-	-	-
Public administrations	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)	8	9,002	-
Of which: financing for construction and property development (including land)	-	-	-
Rest of households	-	-	-
Total	8	9,002	-
Additional information:			
Financing classified as non-current assets and disposable groups of items classified as held-for-sale	-	-	-
2016			
Credit entities	-	-	-
Public administrations	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)	6	8,514	-
Of which: financing for construction and property development (including land)	-	-	-
Rest of households	-	-	-
Total	6	8,514	-
Additional information:			
Financing classified as non-current assets and disposable groups of items classified as held-for-sale	-	-	-

	Normal						
			With collateral				
	Without collateral				Maximum amount of collateral that may be considered (thousands of euros)		
	Number of operations	Gross carrying amount (thousands of euros)	Number of operations	Gross carrying amount (thousands of euros)	Property collateral	Rest of collateral	Cumulative impairment (thousands of euros)
2017							
Credit entities	-	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)	5	2,812	-	-	-	-	-
Of which: financing for construction and property development (including land)	-	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-	-
Total	5	2,812	-	-	-	-	-
Additional information:							
Financing classified as non-current assets and disposable groups of items classified as held-for-sale	-	-	-	-	-	-	-
2016							
Credit entities	-	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)	5	4,268	-	-	-	-	-
Of which: financing for construction and property development (including land)	-	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-	-
Total	5	4,268	-	-	-	-	-
Additional information:							
Financing classified as non-current assets and disposable groups of items classified as held-for-sale	-	-	-	-	-	-	-

	Under special monitoring						
	Without collateral		With collateral				
					Maximum amount of collateral that may be considered (thousands of euros)		
	Number of operations	Gross carrying amount (thousands of euros)	Number of operations	Gross carrying amount (thousands of euros)	Property collateral	Rest of collateral	Cumulative impairment (thousands of euros)
2017							
Credit entities	-	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)	3	6,005	-	-	-	-	-
Of which: financing for construction and property development (including land)	-	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-	-
Total	3	6,005	-	-	-	-	-
Additional information:							
Financing classified as non-current assets and disposable groups of items classified as held-for-sale	-	-	-	-	-	-	-
2016							
Credit entities	-	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)	1	4,246	-	-	-	-	-
Of which: financing for construction and property development (including land)	-	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-	-
Total	1	4,246	-	-	-	-	-
Additional information:							
Financing classified as non-current assets and disposable groups of items classified as held-for-sale	-	-	-	-	-	-	-

	Doubtful assets						
	Without collateral		With collateral				Cumulative impairment or loss in fair value due to credit risk (thousands of euros)
					Maximum amount of collateral that may be considered (thousands of euros)		
	Number of operations	Gross carrying amount (thousands of euros)	Number of operations	Gross carrying amount (thousands of euros)	Property collateral	Rest of collateral	
2017							
Credit entities	-	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)	5	8,320	-	-	-	-	-
Of which: financing for construction and property development (including land)	-	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-	-
Total	5	8,320	-	-	-	-	-
Additional information:							
Financing classified as non-current assets and disposable groups of items classified as held-for-sale	-	-	-	-	-	-	-
2016							
Credit entities	-	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)	-	-	-	-	-	-	-
Of which: financing for construction and property development (including land)	-	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-
Additional information:							
Financing classified as non-current assets and disposable groups of items classified as held-for-sale	-	-	-	-	-	-	-

Below are breakdowns as at 31 December 2017 and 2016 of the amount of operations which, subsequent to refinancing or restructuring, were classified as doubtful in the year:

	Full property mortgage		Rest of collateral		Without collateral	
	No. of operations	Gross amount (thousands of euros)	No. of operations	Gross amount (thousands of euros)	No. of operations	Gross amount (thousands of euros)
2017						
Credit entities	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)	-	-	-	-	-	-
Of which: financing for construction and property development (including land)	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-
Total	-	-	-	-	-	-
2016						
Credit entities	-	-	-	-	-	-
Public administrations	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business activity)	-	-	-	-	-	-
Other non-financial institutions and individual entrepreneurs (non-financial business activity)	-	-	-	-	-	-
Of which: financing for construction and property development (including land)	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-
Total	-	-	-	-	-	-

b) Market risk

This risk includes those resulting from potential adverse variations in interest rates on assets and liabilities, exchange rates of the currencies in which the financial assets and liabilities or off-balance amounts, and market prices of the marketable financial instruments.

Except in accordance with Note 8, on 31 December 2017 and 2016 there are no material equity instruments, or financial instruments traded in active markets that have become relatively illiquid.

b.1) Interest rate risk

This risk refers to the potential impact of changes in the general level of interest rates on the income statement (flows generating income and expenses) or on the value of equity. The cause are the discrepancies between the dates of maturity or repricing of financial assets and liabilities triggering a different response to fluctuations in interest rates.

Except for debt securities included under "Held-to-maturity investments" heading, the rest of financial instruments at fixed interest rates generally have maturities of less than one year. Financial instruments at floating rates have rate renewal periods of less than 12 months. Accordingly, the Bank estimates that, except for the heading "Held-to-maturity investments", it has no material exposure to this kind of risk.

Average rates on balances at close of 2017 and 2016 are as follows:

	2017		2016	
Assets	Thousands of euros	Average interest rate	Thousands of euros	Average interest rate
Cash in hand and at central banks and other demand deposits	141,546		125,740	
- for letter of credit operations used	35,507	0.05%	38,037	0.05%
- other	106,039	-	87,703	-
Loans and receivables - credit entities	248,766	2.79%	155,470	3.26%
Loans and receivables - customer loans	144,519	2.71%	127,330	2.95%
Held-to-maturity investments	116,866	4.04%	101,175	4.56%
Total	651,697		509,715	
Liabilities				
Financial liabilities at amortised cost – central bank deposits	12,500	-	5,500	-
Financial liabilities at amortised cost – credit entity deposits	494,459	0.11%	373,879	0.10%
Financial assets at amortised cost – customer deposits	17,607	0.15%	12,424	0.12%
Other financial liabilities	57,019	-	54,125	-
Total	581,585		445,928	

The Bank conducts mainly interest rate transactions with the euro and US dollar as the reference currencies.

b.2) Foreign exchange risk

The table below sums up the Bank's exposure to foreign exchange risk.

Thousands of euros

2017	EUR	USD	Other	Total
Assets				
Cash in hand and at central banks and other demand deposits	113,042	23,802	4,702	141,546
Available-for-sale financial assets – equity instruments	284	-	-	284
Loans and receivables - credit entities	42,156	206,610	-	248,766
Loans and receivables - customers	84,235	60,280	4	144,519
Held-to-maturity investments	99,987	16,879	-	116,866
Investment in subsidiaries, jointly-controlled businesses and associates – group companies	1,063	-	-	1,063
Tangible assets - Property, plant and equipment	2,478	-	-	2,478
Tax assets – Current tax assets	6	-	-	6
Other assets - Rest of other assets	165	8	47	220
Total	343,416	307,579	4,753	655,748
Liabilities				
Financial liabilities at amortised cost - central bank deposits	12,500	-	-	12,500
Financial liabilities at amortised cost – credit entity deposits	199,720	290,596	4,143	494,459
Financial liabilities at amortised cost – customer deposits	16,725	882	-	17,607
Financial liabilities at amortised cost - other financial liabilities	40,845	16,174	-	57,019
Provisions – commitments and guarantees granted	542	-	-	542
Tax liabilities – Current tax liabilities	381	-	-	381
Other liabilities	192	1	17	210
Total	270,904	307,652	4,160	582,718
Net foreign currency position in the balance sheet	72,511	(74)	593	73,030

	Thousands of euros			
2016	EUR	USD	Other	Total
Assets				
Cash in hand and at central banks and other demand deposits	111,164	12,601	1,975	125,740
Available-for-sale financial assets – equity instruments	287	-	-	287
Loans and receivables - credit entities	11,042	143,377	1,051	155,470
Loans and receivables - customers	65,761	61,564	5	127,330
Held-to-maturity investments	72,189	28,986	-	101,175
Investment in subsidiaries, jointly-controlled businesses and associates – group companies	1,063	-	-	1,063
Tangible assets - Property, plant and equipment	2,487	-	-	2,487
Tax assets – Current tax assets	710	-	-	710
Other assets - Rest of other assets	179	-	-	179
Total	264,882	246,528	3,031	514,441
Liabilities				
Financial liabilities at amortised cost - central bank deposits	5,500	-	-	5,500
Financial liabilities at amortised cost – credit entity deposits	131,663	239,977	2,239	373,879
Financial liabilities at amortised cost – customer deposits	11,760	664	-	12,424
Financial liabilities at amortised cost - other financial liabilities	46,704	7,421	-	54,125
Provisions – commitments and guarantees granted	170	-	-	170
Tax liabilities – Current tax liabilities	-	-	-	-
Other liabilities	484	3	-	487
Total	196,281	248,065	2,239	446,585
Net foreign currency position in the balance sheet	68,603	(1,538)	791	67,856

The amount of translation differences recognised in the income statement in 2017 amounted to 724 thousand euros (2016: 53 thousand euros).

c) Liquidity risk

This risk reflects the possibility that a credit entity may have difficulties in holding sufficient liquid funds, or having access to them, at the proper cost, to tackle its payment obligations at all times. If the Bank has sufficient cash lines this risk is monitored daily by its Treasury Committee.

Below is a breakdown of the financial instruments by residual maturity terms at 31 December 2017 and 2016. The maturity dates considered in constructing the attached table are the expected maturity or cancellation dates obtained as a function of the Bank's past experience:

	Thousands of euros								
2017	On demand	Up to one month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Indeterminate unclassified maturity	Total
Assets									
Cash in hand and at central banks and other demand deposits	141,546	-	-	-	-	-	-	-	141,546
Available-for-sale financial assets	284	-	-	-	-	-	-	-	284
Loans and receivables - credit entities	16	110,222	40,292	19,623	65,030	13,583	-	-	248,766
Loans and receivables - customers	74	13,518	20,544	44,907	51,268	12,835	1,373	-	144,519
Held-to-maturity investments	-	-	-	-	-	24,025	92,841	-	116,866
Total	141,920	123,740	60,836	64,530	116,298	50,443	94,214	-	651,981
Liabilities									
Financial liabilities at amortised cost - central bank deposits	-	-	12,500	-	-	-	-	-	12,500
Financial liabilities at amortised cost - credit entity deposits	221,942	78,531	154,219	6,639	32,336	792		-	494,459
Financial liabilities at amortised cost – customer deposits	18,501	4	26	262	1,473	41	-	-	17,607
Financial liabilities at amortised cost - other financial liabilities	57,019	-	-	-	-	-	-	-	57,019
Total	294,762	78,535	166,745	6,901	33,809	833	-	-	581,585
Gap	(152,842)	45,205	(105,909)	57,629	82,489	49,610	94,214	-	70,396
Cumulative gap	(152,842)	(107,637)	(213,546)	(155,917)	(73,428)	(23,818)	70,396	70,396	

2016	Thousands of euros								
	On demand	Up to one month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Indeterminate unclassified maturity	Total
Assets									
Cash in hand and at central banks and other demand deposits	125,740	-	-	-	-	-	-	-	125,740
Available-for-sale financial assets	287	-	-	-	-	-	-	-	287
Loans and receivables - credit entities	-	51,467	14,333	33,825	36,491	19,354	-	-	155,470
Loans and receivables - customers	196	267	15,697	19,159	23,723	53,620	14,668	-	127,330
Held-to-maturity investments	-	-	-	-	-	26,824	74,351	-	101,175
Total	124,223	51,734	30,030	52,984	60,214	99,798	89,019	-	510,002
Liabilities									
Financial liabilities at amortised cost - central bank deposits	-	-	-	5,500	-	-	-	-	5,500
Financial liabilities at amortised cost - credit entity deposits	187,911	19,436	47,336	1,743	117,453	-	-	-	373,879
Financial liabilities at amortised cost – customer deposits	10,610	-	29	262	116	1,407	-	-	12,424
Financial liabilities at amortised cost - other financial liabilities	54,125	-	-	-	-	-	-	-	54,125
Total	252,646	19,436	47,365	7,505	117,569	1,407	-	-	445,928
Gap	(128,323)	32,298	(17,335)	45,479	(57,355)	98,391	89,019	-	64,074
Cumulative gap	(128,323)	(94,125)	(111,460)	(65,981)	(123,336)	(24,945)	64,074	64,074	

The Bank has sufficient financing lines arranged with Spanish banks. Moreover, it has the unconditional support of its parent.

d) Operating and reputational risk

Operating risk is the probability of loss due to inadequate or defective processes or problems with personnel and internal systems or external events.

Reputational risk can be defined as the possibility of damage to the image, prestige or reputation of an entity, as a result of the how third parties might perceive its actions.

These risks are in addition to the operations' own economic risks.

e) Fair value of financial instruments

The tables below present the fair value of the Bank's financial instruments at 31 December 2017 and 2016, broken down by class of financial assets and liabilities and in the following levels:

- LEVEL 1: Financial instruments whose fair value was determined based on their price in active markets, with no modification on said prices.
- LEVEL 2: Financial instruments whose fair value was estimated based on the prices in organised markets for similar instruments or by using other measurement techniques in which all the significant inputs are based on directly or indirectly observable market data.

- LEVEL 3: Instruments whose fair value was estimated using measurement techniques in which one or more significant input is not based on observable market data.

Pursuant to the provisions of the previous paragraphs, an input is considered to be significant when it is important to determine fair value as a whole.

	Thousands of euros				
	Total		Fair value hierarchy		
2017	balance	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash in hand and at central banks and other demand deposits	141,546	141,546	-	79,080	62,444
Available-for-sale financial assets	284	284	-	-	284
Loans and receivables					
Credit entities	248,766	248,766	-	-	248,766
Customers	144,496	144,496	-	-	144,496
Held-to-maturity investments	116,865	119,951	-	-	119,951
Total assets	651,760	654,956	-	79,080	575,941
Liabilities					
Financial liabilities at amortised cost					
Central bank deposits	12,500	12,500	-	12,500	-
Credit entity deposits	494,459	494,459	-	-	494,459
Customer deposits	17,607	17,607	-	-	17,607
Other financial liabilities	57,019	57,019	-	-	57,019
Total liabilities	581,585	581,585	-	12,500	569,085

2016	Total balance	Fair Value	Level 1	Level 2	Level 3
	Thousands of euros				
			Fair value hierarchy		
Assets					
Cash in hand and at central banks and other demand deposits	125,740	125,740	-	87,703	38,037
Available-for-sale financial assets	287	287	-	-	287
Loans and receivables					
Credit entities	155,470	155,470	-	-	155,470
Customers	127,330	127,330	-	-	127,330
Held-to-maturity investments	101,175	99,424	-	-	99,424
Total assets	510,002	508,251	-	87,703	420,548
Liabilities					
Financial liabilities at amortised cost					
Central bank deposits	5,500	5,500	-	5,500	-
Credit entity deposits	373,879	373,879	-	-	373,879
Customer deposits	12,424	12,424	-	-	12,424
Other financial liabilities	54,125	54,125	-	-	54,125
Total liabilities	445,928	445,928	-	5,500	440,428

The general measurement criteria used by the Bank to estimate the fair value of its financial instruments are:

- If an active market lists prices and they have depth and are observable, these prices will be used to obtain fair value.

- For instruments with not very active markets or without a market, initially their fair value is determined in most cases based on acquisition cost. Subsequently, if it is not possible to reliably estimate based on the observation of recent transactions with the same or similar instruments or recent transaction prices, or by using a measurement model in which all the variables stem solely from data observable in the market, fair value presented in the tables above is equal to cost and presented as "Level 3".

- In the specific case of financial assets classified as "Demand deposits at credit institutions" and "Loans and receivables" and of financial liabilities classified at amortised cost presented in the above tables, given their interest rates, maturities, counterparties, etc. the Bank's Directors estimate that their carrying value (amortised cost) does not significantly differ from their fair value, which is why their amortised cost is presented as their fair value.

In 2017 and 2016, no financial instruments were transferred, and they are maintained between levels 1, 2 and 3 at the end of said years.

6.2 CAPITAL MANAGEMENT

The Bank's strategic goals in relation to capital management are as follows:

- To always comply with applicable regulations concerning minimum capital consumption.

- Seek maximum efficiency in managing capital, so that, along with other risk and return variables, capital consumption is considered a fundamental variable in analysis associated with the Bank's investment decision-making.

To meet these goals, the Bank has a series of capital management policies and processes, whose guiding principles are:

- The Bank's management monitors and controls levels of compliance with the Bank of Spain's standards concerning capital, and alarm systems are in place to ensure compliance with applicable regulations at all times. In this connection, there are contingency plans to ensure compliance with the applicable regulatory limits.

- In the Bank's strategic and commercial planning, as well as in the analysis and monitoring of the Bank's operations, a key factor in decision-making is their impact on computable capital and the consumption-return-risk ratio. In this regard, the Bank has procedures to establish the parameters that must act as a guide in making decisions concerning minimum capital consumption requirements.

Capital that computes as such for the purposes of solvency regulations applicable to credit entities differs in certain aspects from the capital included in the Bank's financial statements, since certain items are considered as such and others not included in the financial statements must be deducted.

On 26 June 2013, the European Parliament and the Council approved Regulation No. 575/2013 concerning the prudential requirements of credit entities and investment firms (hereinafter, "(EU) Regulation No. 575/2013"), and Directive 2013/36/EU related to the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (hereinafter, "Directive 2013/36/EU"), phased in from 1 January 2014 to 1 January 2019 and implying the derogation of solvency regulations hitherto in place.

Regulation (EU) No. 575/2013 and Directive 2013/36/EU regulate capital requirements in the European Union and include the recommendations set forth in Basel III, specifically:

- Regulation (EU) No. 575/2013, directly applicable by the Member States, contains prudential regulations that must be implemented by credit entities and, among other aspects, encompasses:

    - The definition of computable items of capital, establishing the requirements for hybrid instruments to compute and limiting the computation of minority accounting interests.

    - The definition of prudential filters and deductions of capital items at each capital level. In this connection, note that the Regulation includes new deductions in respect of Basel II (net tax assets, pension funds, etc.) and modifies existing deductions. However, application will be phased in over a period of 5 to 10 years.

    - Minimum requirements are defined, with three capital tiers: tier 1 ordinary capital with a minimum ratio of 4.5%, tier 1 capital with a minimum ratio of 6% and total capital with a minimum required ratio of 8%.

    - The requirement that financial entities calculate a leverage ratio, defined as the entity's tier 1 capital divided by total exposure not adjusted by risk. Since 2015, the ratio has been publicly disclosed and supervisors have scheduled the final definition for 2017.

- Directive 2013/36/EU, which must be incorporated by Member States into their national legislation in accordance with their criterion, is aimed mainly at coordinating national stipulations concerning access to the activity of credit entities and investment firms, their governance mechanisms and their supervisory framework. Directive 2013/36/EU, among other aspects, includes additional capital requirements of those established in Regulation (EU) No. 575/2013 to be gradually phased in through 2019 and non-compliance of which implies limitations on discretionary distributions of results, specifically:

    - A capital conservation buffer and anti-cyclical buffer, providing continuity to the regulatory framework of Basel III and for the purpose of mitigating the pro-cyclical effects of financial regulations, including the obligation of maintaining a conservation buffer of 2.5% of ordinary tier 1 capital common to all financial entities and a specific anti-cyclical capital buffer for each entity over ordinary tier I capital.

    - A buffer against systemic risks. On the one hand, for globally systemically important financial institutions, and for many systemically important financial institutions, in order to mitigate systemic or acyclical macroprudential risks, in other words, to cover risks of perturbance of the financial system with potential serious negative consequences on said system and on the real economy of a Member State.

In addition, among the supervisory powers, Directive 2013/36/EU establishes that the Competent Authority may require that credit entities to maintain capital above the minimum requirements provided in said Directive.

In relation to the Spanish regulatory framework, the new legislation is aimed mainly at the transposition from European rules to the local sphere:

- Royal Decree-Law 14/2013, of 29 November, concerning urgent measures to adapt Spanish law to European Union legislation concerning the supervision and solvency of financial institutions: partially transposes to Directive 2013/36/EU to Spanish law and empowers the Bank of Spain to use the options attributed to competent authorities in Regulation (EU) No. 575/2013.

- Bank of Spain Circular 2/2014, of 31 January, for credit institutions concerning the exercising of various regulatory options contained in Regulation (EU) No. 575/2013. The idea is to establish, in accordance with the powers granted, which options, of the ones Regulation (EU) No. 575/2013 attributes to the national competent authorities, will have to be complied with as from 1 January 2014 by consolidable groups of credit entities and credit entities integrated or not in a consolidable group, and to what extent. Accordingly, in that Circular, the Bank of Spain makes use of some permanent regulatory options provided in Regulation (EU) No. 575/2013, generally in order to permit continuity in the treatment afforded by Spanish rules to certain matters in respect of the entry into force of EU rules, the justification of which, in some cases, depends on the business model traditionally implemented by Spanish entities. This does not preclude the future exercise of other options envisaged for competition authorities in Regulation (EU) No. 575/2013, in many cases, mainly in the case of non-general options, by direct application of Regulation (EU) No. 575/2013, with no need for specific publication in a Bank of Spain Circular.

- Law 10/2014 of 26 June on the ordering, supervision and solvency of credit entities, aimed mainly at continuing the process of transposing Directive 2013/36/EU commenced by Royal Decree Law 14/2013, of 29 November, and rewording certain national provisions hitherto in place in relation to the ordering and discipline of credit institutions. Among the main new developments, for the first time the Bank of Spain is expressly obliged to present, at least once a year, a Supervisory Programme including the content and form of future supervisory activity, and the actions to be undertaken in view of the results obtained. This programme will include a stress test at least once a year.

- Bank of Spain Circular 2/2016, of 2 February. This Circular completes the process to transpose Directive 2013/36/EU into Spanish law and outlines the regulatory options for national competent authorities in addition to those set forth in Circular 2/2014. Specifically, it includes the possibility, subject to the prior authorisation of the Bank of Spain, of applying to certain exposures in respect of public sector bodies the same weighting as the public administrations on which they depend.

In addition, in 2016 the European Central Bank published regulation (EU) 2016/445, of 14 March 2016, aimed at furthering the harmonisation of regulations applicable to entities under its direct supervision (significant institutions) and the principle of a level playing field among institutions. It entered into force on 1 October 2016, completing the options and power exercised by national competent authorities.

On 23 December 2015, the Bank of Spain's Executive Committee, in application of article 68.2.a of Law 10/2014, agreed to require the Entity to maintain a global ordinary tier 1 capital ratio (CET1), at individual level, not lower than 10.5%, in accordance with the definition of said ratio in Regulation (EU) No. 575/2013.

On 22 December 2016, in application of article 68.2.a of Law 10/2014, the Bank of Spain agreed to require the Entity to maintain total SREP capital, as defined in EBA guideline EBA/GL/2014/13, not lower than 12.26%.

In relation to minimum capital requirements, at 31 December 2017 and 2016, the Bank applied the following methods and considerations:

– In requirements for credit and counterparty risk, dilution and incomplete operations: standard method.

– In requirements for position, foreign exchange and commodities risk: standard method.

– To calculate capital requirements linked to operating risk, the basic indicator method was used.

– At 31 December 2017 and 2016, the Bank had no exposure to liquidity-delivery risk, risk due to general fixed expenses, risk due to the adjustment of credit valuation, risk associated with large exposures in the trading portfolio or other exposures to significant risks.

There follows a breakdown of the Bank's various capital levels at 31 December 2017 and 2016 and the requirements based on the provisions of Regulation (EU) No. 575/2013 and Directive 2013/36/EU:

	2017		2016	
	Thousands of euros	%	Thousands of euros	%
Ordinary tier I capital [(1)]	67,671	18.93	62,693	17.94
Tier I capital [(2)]	67,671	18.93	62,693	17.94
Tier 2 capital [(2)]	-	-	-	-
Total capital	67,671	18.93	62,693	17.94
Total capital requirements	43,817	12.26	42,844	12.26

(1) Includes shareholders' equity and reserves, less holdings in which the Bank has a significant investment (the Bank does not have any other items or deductions reducing its ordinary tier 1 capital).

(2) At 31 December 2017 and 2016, the Bank did not have applicable items or deductions such as additional tier 1 or tier II capital.

7. CASH IN HAND AND AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

The composition of the heading "Cash in hand and at central banks and other demand deposits" in the accompanying balance sheet at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Cash	22	13
Cash balances in central banks	79,080	79,794
Other demand deposits at credit institutions (a)		
Letters of credit used (Note 15.4)	35,507	38,037
Other demand deposits at credit institutions (a)	26,937	7,896
Total	141,546	125,740

(a) In 2017 and 2016, demand deposits in credit institutions were considered as a component of Cash for the purposes of preparing the statement of cash flows.

(b) The breakdown by remaining maturities of these line items is provided in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

Balances held at the Bank of Spain are computable for compliance with the minimum reserve requirement, as provided in applicable legislation.

Letters of credit confirmed on export used have as their counterparties issuing credit institutions and are recognised in the balance sheet as "Loans and receivables". The counterparty for these items of assets are listed under "Other financial liabilities" in the balance sheet in the same amount (see Note 15.4).

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The breakdown of this heading of the asset side of the balance sheet is as follows:

	Thousands of euros	
	2017	2016
Equity instruments	284	287
Total	284	287

Equity instruments refer to shares in Grupo Isolux Corsán, S.A. and Abengoa, S.A. These shares were acquired in the financial restructuring processes of these companies by converting debt instruments into equity instruments.

Shares in Grupo Isolux Corsán, S.A. are recognised at their acquisition cost (287 thousand euros), less estimated impairment (89 thousand euros), since the Bank does not have sufficient information to measure their fair value.

Shares in Abengoa, S.A., since they are listed, are recognised at fair value, with an impairment of 113 thousand euros, and an initial acquisition cost of 199 thousand euros.

9. LOANS AND RECEIVABLES

The breakdown of this heading of the asset side of the balance sheet is as follows:

	Thousands of euros	
	2017	2016
Credit entity deposits	248,766	155,470
Loans and receivables - customers	144,519	127,330
Total	393,285	282,800

9.1. Credit entity deposits

The breakdown of this balance sheet heading is as follows:

	Thousands of euros	
	2017	2016
Term accounts	248,133	155,184
Valuation adjustments		
Valuation corrections for asset impairment	(339)	(324)
Interest accrued	1,117	658
Fees	(145)	(48)
Total	248,766	155,470

The breakdown by remaining maturities of this line item is provided in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

9.2 Loans and receivables - customers

There follows a breakdown of this balance sheet heading, by the modality and status of the loan, as well as the counterparty's sector and interest rate modality:

	Thousands of euros	
	2017	2016
By loan modality and status:		
Trading portfolio	103,083	31,650
Other term receivables	40,612	93,563
Demand receivables and various	2	2
Other financial assets	-	48
Doubtful assets	5,323	8,955
Valuation adjustments	(4,501)	(6,888)
Total	144,519	127,330
By sector:		
Other resident sectors	38,200	39,728
Non-resident public administrations	41,930	25,830
Other non-resident sectors	64,389	61,772
Total	144,519	127,330
By interest rate modality:		
Fixed rate	69,549	46,128
Floating rate	74,970	81,202
Total	144,519	127,330

The breakdown by remaining maturities of this line item is provided in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

At 31 December 2017 there were loans and receivables from customers in relation to guarantees, for financing received from the Bank of Spain (Note 15.1), in the amount of 11,500 thousand euros (2016: 9,000 thousand euros).

The breakdown of valuation adjustments on operations classified as "Loans and receivables – customers" is as follows:

	Thousands of euros	
	2017	2016
Valuation adjustments:		
Valuation corrections for asset impairment	(5,126)	(7,236)
Interest accrued	807	620
Fees	(182)	(272)
Total	(4,501)	(6,888)

9.3 Impairment losses

The details of impairment losses accounted for in 2017 and 2016 for assets under "Loans and receivables" are as follows:

	Thousands of euros			
2017	Specific	Generic	Country risk [(*)]	Total
Balance at 31 December 2016	6,388	445	727	7,560
Provisions charged to profit				
Determined individually	3,248	-	481	3,729
Determined collectively	-	527	-	527
Recovery of provisions charged to profit	-	(307)	(336)	(643)
Usage	(5,709)	-		(5,709)
Other movements	-	-		-
Balance at 31 December 2017	3,927	665	872	5,464
Of which:				
Depending on how it is determined:				
Determined individually	3,927	-	872	4,799
Determined collectively	-	665	-	665
Depending on the geographic area of the risk's location:				
Spain	3,927	132	-	4,059
Other	-	533	872	1,405
Depending on the nature of the asset covered:				
Loans and receivables - customers	3,927	326	871	5,124
Foreign credit entities	-	339	1	340

	Thousands of euros			
2016	Specific	Generic	Country risk [(*)]	Total
Balance at 31 December 2015	2,136	-	379	2,515
Provisions charged to profit				
Determined individually	4,107	-	379	4,486
Determined collectively	-	519	-	519
Recovery of provisions charged to profit	-	(74)	(31)	(105)
Usage	(92)	-		(92)
Other movements	237	-		237
Balance at 31 December 2016	6,388	445	727	7,560
Of which:				
Depending on how it is determined:				
Determined individually	6,388	-	727	7,115
Determined collectively	-	445	-	445
Depending on the geographic area of the risk's location:				
Spain	6,388	379	-	6,767
Other	-	324	727	1,051
Depending on the nature of the asset covered:				
Loans and receivables - customers	6,388	121	476	6,985
Foreign credit entities	-	324	251	575

[(*)] Includes provisions for country risk in relation to loans and receivables and guarantees granted to credit institutions and customers.

In the above tables, the usage of funds corresponds to the derecognition of doubtful loans considered unrecoverable.

At 31 December 2017, the Bank had classified operations totalling 5,232 thousand euros as doubtful assets (2016: 8.955 thousand euros), broken down as follows:

	Thousands of euros					
2017	Payment current	Up to 6 months	6 to 9 months	9 to 12 months	More than 12 months	Total
By geographic areas:						
- Spain	-	-	-	-	5,320	5,320
- Other	-	-	-	-	3	3
Total	-	-	-	-	5,323	5,323
By class of counterparty:						
- Public administrations	-	-	-	-	-	-
- Other resident sectors	-	-	-	-	5,320	5,320
- Other non-resident sectors	-	-	-	-	3	3
Total	-	-	-	-	5,323	5,323
By class of counterparty:						
- Commercial credit	-	-	-	-	499	499
- Loans and credits	-	-	-	-	4,821	4,821
- Other assets	-	-	-	-	3	3
Total	-	-	-	-	5,323	5,323

	Thousands of euros					
2016	Payment current	Up to 6 months	6 to 9 months	9 to 12 months	More than 12 months	Total
By geographic areas:						
- Spain	-	-	-	-	8,955	8,955
- Other	-	-	-	-	-	-
Total	-	-	-	-	8,955	8,955
By class of counterparty:						
- Public administrations	-	-	-	-	-	-
- Other resident sectors	-	-	-	-	8,955	8,955
- Other non-resident sectors	-	-	-	-	-	-
Total	-	-	-	-	8,955	8,955
By class of counterparty:						
- Commercial credit	-	-	-	-	778	778
- Loans and credits	-	-	-	-	8,177	8,177
- Other assets	-	-	-	-	-	-
Total	-	-	-	-	8,955	8,955

At 31 December 2016, doubtful assets included a balance of 7,992 thousand euros with Abengoa, S.A., a company which on 25 November 2015 presented to the Seville Mercantile Court the notification envisaged in article 5.bis of the Bankruptcy Law. At 31 December 2016, the Bank had allocated a provision of 5,019 thousand euros to cover possible losses.

On 17 March 2017, Abengoa, S.A. signed an agreement to restructure its debt, implying for existing creditors (including the Bank) the option to capitalise 70% of their loans and refinance the remaining amount through new debt instruments. Consequently, pre-existing debt was derecognised from the balance sheet and the new financial assets received were recognised, consisting of 2,484 thousand euros of debt instruments and 199 thousand euros of equity instruments.

At 31 December 2017, the Bank had identified the debt instruments of Abengoa, S.A as being under special monitoring, and with a generic provision of 65 thousand euros.

At 31 December 2017, the Bank had recognised the equity instruments of Abengoa, S.A. at fair value in the amount of 86 thousand euros, after recognising an impairment therein of 113 thousand euros (see Note 8).

At the end of 2016, the Bank took part in the debt restructuring process of Grupo Isolux Corsán, S.A. As a result of that process, the Bank took part in the debt conversion process, which implied derecognising pre-existing debt, and recognising the new financial assets received, consisting of debt instruments totalling 4,245 thousand euros and equity instruments totalling 287 thousand euros (see Note 8). At 31 December 2016, the Bank had identified the debt instruments as being under special monitoring, and a provision of 842 thousand euros was allocated.

At 31 December 2017, a total of 4,264 thousand euros in debt instruments and 197 thousand euros in equity instruments of Grupo Isolux Corsán was recognised.

At 31 December 2017, the Bank had identified these debt instruments of Grupo Isolux Corsán, S.A. as being doubtful, and a provision of 3,411 thousand euros was allocated.

At 31 December 2017, the Bank had recognised the equity instruments of Grupo Isolux Corsán, S.A. in the amount of 197 thousand euros, after recognising an impairment therein of 89 thousand euros (see Note 8).

The breakdown of the heading "Impairment or reversal of impairment of financial assets not measured at fair value through profit and loss – Loans and receivables" in the income statement at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Recovery (allocation) in the year	(3,949)	(4,900)
Recovery of written off assets	-	52
Total	(3,949)	(4,848)

The movement of impaired financial assets derecognised in 2017 and 2016 was as follows:

	Thousands of euros	
	2017	2016
Opening balance	940	4,842
Recognitions charged to corrections for asset impairments	384	-
Recovery in cash of uncollected products passed due	-	(52)
Derecognition of written off assets	(940)	(3,850)
Closing balance	384	940

At 31 December 2017 and 2016 there are no material outstanding amounts passed due classified as normal risk or risk under special monitoring.

10. HELD-TO-MATURITY INVESTMENTS

The heading "Held-to-maturity investments" corresponds to listed debt securities, broken down, by the counterparty sector an interest rate modality, as follows:

	Thousands of euros	
	2017	2016
By sector		
Spanish public administrations - Regional	26,304	4,309
Non-resident credit entities	16,879	19,423
Other resident sectors	19,270	12,570
Non-resident public administrations	50,385	60,721
Other non-resident sectors	3,073	3,069
Doubtful assets	3,000	3,171
Valuation corrections for asset impairment	(2,045)	(2,088)
Total	116,866	101,175
By interest rate modality		
Fixed rate	116,866	101,175
Floating rate	-	-
Total	116,866	101,175

The breakdown by remaining maturities of this line item is provided in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

In 2017, the Bank made two divestments included under "Held-to-maturity investments", which were recognised, on the one hand, in a total amount of 9,655 thousand euros, generating a profit of 294 thousand euros and, on the other hand, in an amount of 3,146 thousand euros, generating a loss of 3 thousand euros, recognised in the income statement for the year. The divestments were made because of early redemption by the issuer in one case and for exceptional reasons in the other case.

In 2016, the Bank made two divestments included under "Held-to-maturity investments", which were recognised in a total amount of 5,188 thousand euros, generating a loss of 32 thousand euros, recognised in the income statement for the year. The divestments were made because of early redemption by the issuer in one case and because of a deterioration in credit risk in the other case.

At 31 December 2017, there were "Held-to-maturity investments" in relation to guarantees, for financing received from the Bank of Spain (Note 15.1), in the amount of 83,716 thousand euros (2016: 23,822 thousand euros).

At 31 December 2017 and 2016, the Bank did not have any assets classified under "Held-to-maturity investments" with any amounts past due.

The movements in 2017 and 2016 for impairments under this heading were as follows:

	Thousands of euros		
	Specific	Generic	Total
Balance at 31 December 2016	2,000	88	2,088
Provisions charged to profit			
Determined individually	176	-	176
Determined collectively	-	21	21
Recovery of provisions charged to profit	-	(64)	(64)
Usage	(176)	-	(176)
Balance at 31 December 2017	2,000	45	2,045

	Thousands of euros		
	Specific	Generic	Total
Balance at 31 December 2015	-	-	-
Provisions charged to profit			
Determined individually	2,000	-	2,000
Determined collectively	-	88	88
Recovery of provisions charged to profit	-	-	-
Usage	-	-	-
Balance at 31 December 2016	2,000	88	2,088

11. NON-CURRENT ASSETS AND DISPOSABLE GROUPS OF ITEMS CLASSIFIED AS HELD-FOR-SALE

The breakdown of this balance sheet heading is as follows:

	Thousands of euros	
	2017	2016
Non-current assets for sale		
Cost	-	100
Impairment losses	-	(100)
Total	-	-

In 2013, the Bank was adjudicated an asset in payment of a debt classified as doubtful, in the amount of 100 thousand euros, to which it had allocated a provision in the same amount. The criteria for the accounting of foreclosed assets is included in Note 3.m.

On 26 May 2016, said property was sold, and the foreclosure was derecognised.

12. INVESTMENT IN SUBSIDIARIES, JOINTLY-CONTROLLED BUSINESSES AND ASSOCIATES

The breakdown of this balance sheet heading is as follows:

	Thousands of euros	
	2017	2016
Holdings in associates		
Cost	1,063	1,063
Impairment losses	-	-
Total	1,063	1,063

On 10 April 2012, the Bank incorporated the company "BMCE Euroservices, S.A.", as its sole shareholder. On 12 September 2014, it agreed to increase the company's capital by 3,768 thousand euros, bringing the total share capital to 4,831 thousand euros. Said capital increase was fully subscribed and paid in by the parent, and the Bank's holding in the company was established at 22%. The investee is not listed in any stock exchange and its key data at 31 December 2017 are as follows.

Registered name:	BMCE Euroservices, S.A.
Registered address:	C/ Alcalá, 21 (Madrid)
Activity:	Provision of payment services
Share capital:	4,831 thousand euros (2016: 4,831 thousand euros).
Reserves:	255 thousand euros (2016: 255 thousand euros).
Prior years' losses:	(137) thousand euros
Profit for the year before tax:	191 thousand euros (2016: (115) thousand euros)
Company auditor:	Financial Statements not audited/Bové Montero y Asociados

In 2017, no dividends were received from the investee (2016: no dividends were received).

In 2017, no impairment losses were recognised (none in 2016 either).

13. TANGIBLE ASSETS

The movement that has occurred in the balances of the tangible assets accounts in 2017 and 2016 and the related accumulated depreciation was the following:

	Thousands of euros			
2017	Buildings	Furniture, facilities and other	Data processing equipment	Total
Cost				
Balance at 1 January 2017	2,675	1,256	426	4,357
Additions	-	70	3	73
Disposals	-	-	-	-
Balance at 31 December 2016	2,675	1,326	429	4,430
Accumulated depreciation				
Balance at 01 January 2016	(392)	(1,074)	(404)	(1,870)
Provisions	(14)	(59)	(9)	(82)
Derecognitions and other	-	-	-	-
Depreciation at 31 December 2017	(406)	(1,133)	(413)	(1,952)
Net balance at 31 December 2017	2,269	193	16	2,478

	Thousands of euros			
2016	Buildings	Furniture, facilities and other	Data processing equipment	Total
Cost				
Balance at 01 January 2016	2,675	1,136	411	4,222
Additions	-	120	15	135
Disposals	-	-	-	-
Balance at 31 December 2016	2,675	1,256	426	4,357
Accumulated depreciation				
Balance at 01 January 2016	(378)	(1,030)	(397)	(1,805)
Provisions	(14)	(44)	(7)	(65)
Derecognitions and other	-	-	-	-
Depreciation at 31 December 2016	(392)	(1,074)	(404)	(1,870)
Net balance at 31 December 2016	2,283	182	22	2,487

At 31 December 2017 and 2016, buildings included land valued at 1,915 thousand euros.

At 31 December 2017, fully-depreciated assets amounted to 1,408 thousand euros (2016: 1,396 thousand euros).

The building, owned by the Bank, is covered by insurance policies that have implied an expense for the Bank of 5 thousand euros in 2017 (2016: 4 thousand euros).

14. OTHER ASSETS AND LIABILITIES

The breakdown of these heading of the accompanying balance sheet for 2017 and 2016 is as follows:

	Thousands of euros			
	Assets		Liabilities	
	2017	2016	2017	2016
Accruals	166	178	210	487
Other items	54	1	-	-
Total	220	179	210	487

15. LIABILITIES AT AMORTISED COST

The breakdown of this heading of the liabilities side of the balance sheet is as follows:

	Thousands of euros	
	2017	2016
Central bank deposits	12,500	5,500
Credit entity deposits	494,459	373,879
Customer deposits	17,607	12,424
Other financial liabilities	57,019	54,125
Total	581,585	445,928

In 2017 and 2016, the Bank had no outstanding issues of covered bonds, bonds or mortgage holdings.

15.1 Central bank deposits

The breakdown of this heading of the liabilities side of the balance sheet is as follows:

	Thousands of euros	
	2017	2016
Bank of Spain	12,500	5,500
Valuation adjustments		
Interest accrued	-	-
Total	12,500	5,500

The breakdown by remaining maturities of this line item is provided in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

At 31 December 2017, there were securities recognised under "Held-to-maturity investments" amounting to 83,716 thousand euros (2016: 23,822 thousand euros), and two credit investment transactions amounting to 11,500 thousand euros (2016: 9,000 thousand euros), in relation to guarantees on the financing received from the Bank of Spain.

15.2 Credit entity deposits

The breakdown of this heading of the liabilities side of the balance sheet, by instrument type, is as follows:

	Thousands of euros	
	2017	2016
Term accounts	272,362	185,313
Other accounts	221,941	187,391
Valuation adjustments		
Interest accrued		
Resident entities	5	-
Non-resident entities	151	1,175
Total	494,459	373,879

The breakdown by remaining maturities of this line item is provided in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

15.3 Customer deposits

The breakdown of this heading of the accompanying balance sheet, based on counterparty and type of financial liability, is as follows:

	Thousands of euros	
	2017	2016
Other resident sectors		
Demand deposits		
Current accounts	14,240	9,006
Term deposits	1,806	1,814
Valuation adjustments		
Interest accrued	1	-
Other non-resident sectors		
Demand deposits		
Current accounts	1,560	1,604
Total	17,607	12,424

The breakdown by remaining maturities of this line item is provided in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

15.4 Other financial liabilities

The breakdown of other financial liabilities by type of financial instrument is as follows:

	Thousands of euros	
	2017	2016
Use of letters of credit (see Note 7)	35,507	38,037
Tax withholding accounts	277	255
Payment orders pending application	21,113	15,581
Clearing houses	-	-
Other	122	252
Total	57,019	54,125

The heading "Payment orders pending application" includes mainly funds pending payment to customers who do not have an accounts opened at the Bank, and settled in the first few days of the following financial year.

The breakdown by remaining maturities of this line item is provided in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

16. PROVISIONS

This heading includes the amount of provisions arranged to cover contingent risks, understood as those operations in which the Entity guarantees obligations on behalf of a third party, emerging as a result of financial guarantees or other types of contract awarded, and contingent commitments, understood as irrevocable commitments that may give rise to the recognition of financial assets.

The breakdown and movement under this heading of the balance sheet in 2017 and 2016 is as follows:

	Thousands of euros		
	Specific	Generic	Total
Balance at 31 December 2015	99	-	99
Provisions charged to profit			
Determined individually	-	186	186
Determined collectively	-	(16)	(16)
Recovered funds	(99)	-	(99)
Balance at 31 December 2016	-	170	170
Provisions charged to profit			
Determined individually	480	67	547
Determined collectively	-	-	-
Recovered funds	-	(175)	(175)
Balance at 31 December 2017	480	62	542

17. SHAREHOLDERS' EQUITY

At 31 December 2017, share capital amounted to 40,635 thousand euros (2016: 40,635 thousand euros), fully subscribed and paid in, and at 31 December 2017 and 2016 it was represented by 666,149 nominative shares, each with a par value of 61 euros. On 5 September 2016, a deed was signed raising the entity's capital, based on the agreements reached at the Universal Shareholders' Meeting of 18 April 2016 to increase capital by 15,000,037.41 euros, by raising the par value of the shares and issuing new shares, bring share capital to a total of 40,635.089.00 euros, represented by 666,149 shares, each with a par value of 61.00 euros.

The Bank's shares are not listed and all have the same characteristics and afford their holders the same rights.

On 26 March 2008, the Bank formalised and registered its status as a sole shareholder public limited company.

On 29 October 2014 the deed of agreement was signed whereby BMCE BANK OF AFRICA assigns with a full title guarantee all shares of which the Bank's share capital is comprised to

BMCE International Holdings PLC, a company with registered headquarters in London (United Kingdom), a company that also belongs to the parent's group and which became the Bank's sole shareholder. This change of sole shareholder was registered in the Companies Register on 7 July 2015.

The Bank's ownership structure and percentage shareholdings at 31 December 2017 and 2016 are as follows:

	%	
	2017	2016
BMCE International Holdings PLC (*)	100.00	100.00
Total	100.00	100.00

(*) Company belonging to the BMCE BANK OF AFRICA group

At 31 December 2017 and 2016, the Bank had not entered into any agreements with its sole shareholder.

The breakdown by item of the balance of reserves is as follows:

	Thousands of euros	
	2017	2016
Legal reserve	3,988	3,578
Voluntary reserve	19,850	16,345
Total	23,838	19,923

In accordance with the Restated Text of Spain's Companies Act, Spanish entities obtaining profits in a financial year must allocate 10% of net profit in the year to the legal reserve. These allocations must continue until the reserve amounts to 20% of share capital. The legal reserve can be used to increase share capital provided that the balance left on the reserve is at least equal to 10% of the capital after the increase.

18. GUARANTEES GRANTED

The breakdown of "Guarantees granted" at year-end 2017 and 2016 is provided below:

	Thousands of euros	
	2017	2016
Guarantees granted		
Sureties	14,722	34,930
Irrevocable letters of credit		
Irrevocable issued	-	761
Irrevocable confirmed	60,893	35,593
Total	75,615	71,284

A significant portion of these amounts will mature with no payment obligation for the Entity, so the overall balance of these commitments cannot be considered as a real future financing or liquidity requirement to be granted to third parties by the Entity.

Income obtained from guarantees is recognised under "Commissions and fees received" in the income statement and calculated using the rate established in the contract to which they relate over the nominal amount of the guarantee.

19. TAXATION

Details of tax assets and liabilities at 31 December 2017 and 2016 are as follows:

	Thousands of euros			
	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Current	6	381	710	-
Deferred	-	-	-	-
Total	6	381	710	-

The movement under current and deferred tax assets and liabilities in 2017 and 2016 is as follows:

	Thousands of euros							
	2017				2016			
	Tax assets		Tax liabilities		Tax assets		Tax liabilities	
	Current	Deferred	Current	Deferred	Current	Deferred	Current	Deferred
Opening balance	710	-	-	-	-	-	522	-
Additions	1,997	-	381	-	2,713	-	-	-
Disposals	(2,701)	-	-	-	(2,003)	-	(522)	-
Other	-	-	-	-	-	-	-	-
Closing balance	6	-	381	-	710	-	-	-

The reconciliation between profit in the year and the taxable bases for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Profit in the year, before the Income Tax provision	7,593	6,111
Increases (decreases) due to permanent differences:	351	718
Adjusted accounting profit/(loss)	7,944	6,829
Increases (decreases) due to temporary differences imputed to profit and loss	-	-
Taxable income	7,944	6,829

	Thousands of euros			
	2017		2016	
	Tax payable	Impuesto a Pagar	Tax payable	Tax payable
Rate (30%)				
Over the adjusted accounting profit/(loss)	2,383	-	2,049	-
Over the taxable base	-	2,383	-	2,049
Deductions	(5)	(5)	(33)	(33)
Payments on account and withholdings	-	(1,997)	-	(2,713)
Subtotal	2,378	381	2,016	(697)
Adjustment in Income Tax from the previous year	(149)	-	(60)	-
Other	5	-	55	(13)
Expense / Tax (receivable) payable	2,234	381	2,011	(710)

The Bank has the last four years open to inspection. Due to the different possible interpretations of the tax regulations applicable to operations conducted by the Bank, in years pending inspection certain contingent tax liabilities may exist that cannot be objectively quantified. However, it is the view of the Bank's directors and tax consultants that the likelihood of these contingent liabilities arising in future inspections is remote and, in any event, any tax liability that may arise as a result would not materially affect the annual financial statements.

20. INCOME STATEMENT

a) Interest income and interest expense.

The breakdown of this heading in the accompanying income statement is as follows:

	Thousands of euros	
	2017	2016
Interest income		
Central bank deposits	-	-
Credit entity deposits	4,305	4,646
Loans and receivables - customers	4,829	4,334
Debt securities	2,997	2,712
	12,131	11,692
Interest expense		
Central bank deposits	(81)	(17)
Credit entity deposits	(2,639)	(2,122)
Customer deposits	(133)	(19)
Total	(2,853)	(2,158)

b) Income and expense from fees and commissions.

The headings "Income from fees and commissions" and "Expenses from fees and commissions" of the accompanying income statements include the amount of all fees in the Bank's favour or paid or payable by the Bank accrued in the year, except those that are an integral part of the effective interest rate of financial instruments.

The breakdown by the products generating the income or expense from fees in 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Income from fees		
For contingent risks	3,034	2,839
For contingent commitments	762	977
For collection and payment services	2,286	4,403
Other fees	17	31
Total	6,099	8,250
Expenses from fees and commissions		
Brokerage in asset and liability transactions	(41)	(21)
Fees assigned to other entities and correspondents	(87)	(163)
Fees paid for transactions with securities	(6)	(5)
Total	(134)	(189)

c) Personnel expenses

The breakdown of this heading in the accompanying income statement is as follows:

	Thousands of euros	
	2017	2016
Wages and bonuses to active personnel	2,817	2,690
Social Security contributions	386	392
Contributions to defined benefit schemes (Note 3.n)	95	97
Training expenses	4	5
Other personnel expenses	102	46
Total	3,404	3,230

The Bank's average number of employees, and the number of employees at year-end broken down by professional category and gender, is as follows:

	No. of employees					
	2017			2016		
	Average headcount in the year	Headcount at year end		Average headcount in the year	Headcount at year end	
		Men	Women		Men	Women
Senior Management	1	1	-	1	1	-
Directors	5	4	1	5	4	1
Technical – department	12	9	3	14	10	4
Admin – technical without department	22	8	14	22	7	15
General services	1	1	-	1	1	-
Total	41	23	18	43	23	20

In 2017 and 2016, the Bank did not have employees with 33% or more disability.

d) Other admin expenses

The breakdown of this heading in the accompanying income statement is as follows:

	Thousands of euros	
	2017	2016
Buildings, facilities and material	334	196
IT	547	568
Communications	271	273
Advertising and publicity	4	26
Legal and attorney fees	48	50
Technical reports	182	162
Supervision services and transfer of funds	4	3
Insurance and auto-insurance premiums	293	343
Governing and controlling bodies	-	-
Representation and personnel travel expenses	241	245
Fees for membership of associations	172	138
Contributions and taxes		
On buildings	14	14
Other	32	33
Other expenses	26	6
Total	2,168	2,057

e) Gains or losses on financial assets and liabilities measured at fair value through profit and loss, net

	Thousands of euros	
	2017	2016
Results of credit investments	164	(61)
Results of investments to maturity	291	(32)
Other	681	-
Total	1,136	(93)

Results from credit investments relate to the sale of the buildings foreclosed in the Abonos y Cereales Gavilán operation, recognised in the balance sheet for 99 thousand euros, generating a profit of 200 thousand euros, as well as to the recovery of 20 thousand euros from a written off transaction in the name of Dytras, S.A., and to the sale of a transaction with Banque Misr, S.A.E., generating a loss of 56 thousand euros.

The results of investments to maturity relate to the sale of the transaction with the Kingdom of Morocco, which generated a profit of 294 thousand euros, and the sale due to early cancellation by the customer of a transaction with Grupo Antolín, generating a loss of 3 thousand euros.

The amount of "Other" relates to the agreement between Pescanova and BMCE BANK INTERNATIONAL, instrumented in a contract for the divestment of Mortgaged Property Assets dated 4 July 2017, and the resulting mortgage cancellation deed, dated 27 December 2017.

21. RELATED PARTIES

Group entities

The Entity is a subsidiary of its parent company, Banque Marocaine du Commerce Extérieur (see Note 17), and it maintains, with it and other group entities, primarily subsidiary relations for foreign trade transactions, as well as those corresponding to transfers abroad.

All related-party transactions are conducted at market rates.

The Bank's balances at 31 December 2017 and 2016 and the transactions conducted in 2017 and 2016 with related parties are as follows:

	Thousands of euros			
	Parent		Other group entities	
	2017	2016	2017	2016
Assets				
Credit entity deposits	19,210	18,756	2,058	26,813
Held-to-maturity investments	16,878	19,423	-	-
Other assets	-	-	1,063	1,063
Liabilities				
Credit entity deposits	118,977	112,767	12,470	14,405
Other financial liabilities	-	7,749	-	2,683
Memorandum accounts				
Guarantees granted	5,651	6,478	3,019	2,998
Contingent commitments granted	-	-	-	10,000
Income				
Interest and similar profits	627	1,025	-	-
Other operating products	-	-	-	-
Expenses				
Interest and similar charges	627	611	-	-

Directors' remuneration and other benefits

In 2017 and 2016, no amount was accrued (under wages, per diems and perks or other long-term remuneration) by members of the Bank's Board of Directors that are not on the payroll due to their not being employees. At 31 December 2017 and 2016 the only member of Senior Management is also a member of the Board of Directors.

Furthermore, there are no advances, loans or guarantees granted, or obligations undertaken by the Bank in relation to pensions or life insurance in respect of the current or previous members of the Bank's Board of Directors, accrued pursuant to their service as directors.

The remuneration received by Senior Management in 2017 and 2016 amounted to 1,052 thousand euros and 1,028 thousand euros, respectively. In addition, the contributions made to defined pension schemes (see Note 3.n) recognised in the income statement for 2017 amounted to 84 thousand euros (en 2016: 82 thousand euros).

The insurance premiums paid for members of Senior Management amounted to 7 and 9 thousand euros in 2017 and 2016, respectively.

At 31 December 2017 and 2016, the Bank had not granted any loans or advances to Senior Management.

In accordance with the provisions of article 229 of the Companies Act, the directors have notified the Bank that, in 2017, neither they nor their related parties, as defined in article 231 of the aforementioned Companies Act:

- Have conducted any transactions with the Bank, not counting ordinary transactions conducted in standard conditions for customers and of little relevance, which are understood to be transactions that it is not necessary to disclose to express a true and fair view of the Bank's equity position, financial situation and results.

- They have not used the Bank's name or invoked their position as a director in order to exert an undue influence on the conduct of private transactions.

- They have not used the Bank's assets, including insider information pertaining to the Bank, for private purposes.

- They have not taken advantage of the Bank's business opportunities.

- They have not obtained benefits or remuneration from third parties outside the Bank and its Group associated with the discharging their duties, except for mere courtesies.

- They have not implemented activities on their own account or on behalf of others that amount to effective competition, either actual or potential, with the Bank, or that, in any other way, place them in a permanent situation of conflict with the Bank's interests.

22. OTHER INFORMATION

Agency agreements

Neither at year-ends 2017 and 2016 nor at any time during those years has the Bank maintained "agency agreements".

Operating leases

The Bank has leases on three premises at 2017 year end (2 premises in 2016) to conduct its activity under a lease agreement. The cost of said lease amounts to 162 thousand euros in 2017 (2016: 40 thousand euros).

Credit commitments

This item includes irrevocable commitments to provide financing in accordance with certain previously established conditions and periods. All the Bank's credit commitments are immediately available.

The breakdown of credit commitments in 2017 and 2016, grouped by counterparty and indicating the limit and amount pending drawing down is as follows:

	Thousands of euros			
	2017		2016	
	Limit	Available	Limit	Available
Available for third parties				
Credit entities	57,924	-	17,986	15,000
Other resident sectors	38,909	39,417	61,712	35,284
Other non-resident sectors	50,951	-	60,427	452
Total	147,784	39,417	140,125	50,736

The average interest rate offered for these commitments is 2.93% in 2017 (2016: 1.95%).

External audit

The fees paid by the Bank for account auditing and other services in 2017 and 2016 are as follows:

	Thousands of euros		
	Audit of annual financial statements	Other services	Total
• Financial year 2017	54	-	54
• Financial year 2016	52	1	53

Customer Services

Article 17 of Ministry of Economy Order ECO/734/2017, of 11 March, establishes the obligation on customer services departments and, where applicable, customer ombudsman offices, of financial entities, to annually present to the Board of Directors a report explaining their work in the previous year. No complaints were filed to this service in 2017 and 2016.

Abandoned deposits and balances

In accordance with the provisions of article 18 of Law 33/2003, dated 3 November, on the equity of public administrations, the Bank does not have abandoned deposits and balances.

Information on the environment and greenhouse gas emission allowances
----

In view of the business activities carried out by the Bank, the Bank does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results. Consequently, no specific disclosures relating to environmental issues are included these notes to the annual financial statements.

Furthermore, in 2017 and 2016, the Bank has no greenhouse gas emission allowances.

Information on average payment period to suppliers. Additional Provision Three. "Duty of Information" of Act 15/2010, of 5 July
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The table below shows the information stipulated in additional provision three of "Law 15/2010, dated 5 July, amending Law 3/2004, of 29 December, establishing measures to combat default in trade operations", in accordance with the templates established in "ICAC Resolution of 29 January 2016 concerning disclosures to be included in annual financial statements in relation to the average payment period to suppliers in commercial transactions":

	2017	2016
	Days	Days
Average payment period to suppliers	35	55
Ratio of transactions paid	35	55
Ratio of outstanding payment transactions	-	-
	Amount (thousands of euros)	Amount (thousands of euros)
Total payments made	1,998	1,808
Total payments outstanding	-	-

Other public disclosures pursuant to Bank of Spain Circular 4/2017

Other public disclosures pursuant to Bank of Spain Circular 4/2017 are provided below

- The Bank's balances at 31 December 2017 and 2016 for refinancings and restructurings of financings granted to third parties are included in Note 6.a.6.
- At 31 December 2017 and 2016, the Bank had not granted any financing for construction, property development or acquisition of homes.
- At 31 December 2017 and 2016, the Bank did not have any assets adjudicated or received in payment of debts in material amounts (see Note 11).
- The distribution by individual activity of customer loans and receivables at the Bank at 31 December 2017 and 2016 is outlined in Note 6.a.5.
- The concentration of exposures by individual activity and geographic area at 31 December 2017 and 2016 is included in Note 6.a.5.
- At 31 December 2017 and 2016 the Bank had not issued any mortgage securities.
- At 31 December 2017 and 2016, the Bank did not have any covered bonds and international bonds issued.
- At 31 December 2017 and 2016, the Bank had not issued any territorial covered bonds.

Earnings per share

In 2017, the Bank's weighted average number of shares was 666,149 shares (2016: 503,298 shares), and earnings per share came to approximately 8.04 euros (2016: 6.16 euros per share). These amounts correspond to both basic earnings and diluted earnings per share, since there are no instruments that can be considered potentially ordinary shares.

23. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Regardless of what is set forth herein, subsequent to 31 December 2017 and until 1 March 2018, when the Bank's Board of Directors drew up its annual financial statements, there have been no material events that should be included in the annual financial statements in order for them to properly provide a true and fair view of the Bank's equity, financial position and profit and loss.

ANNEX I

ANNUAL BANKING REPORT

In compliance with the provisions of article 87.1 of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, there follows a detailed breakdown of the required disclosures.

a) Denomination, nature and geographic location of the Bank's activity.

The corporate purpose of BMCE BANK INTERNATIONAL, S.A.U. is to conduct all kinds of banking operations in general, as provided in its Articles of Association, and it is subject to the rules and regulations of banks operating in Spain and of credit entities in general.

The Bank's registered offices are located in Madrid, calle Serrano, 59, also the entity's only banking office. Although the Bank has field offices in Barcelona and Portugal, all the Bank's administrative and management services are performed solely through the banking office in Madrid. Consequently, all the information included in the following sections corresponds to the activity conducted at that office.

b) Business volume, profit/(loss) before taxes, income tax and grants and public aid received

	Thousands of euros	
	2017	2016
Interest and similar profits	12,131	11,692
Profit/(loss) before tax	7,593	6,111
Income tax	(2,234)	(2,011)
Grants or public aid received	-	-

c) Number of full-times employees.

	No. of persons	
	2017	2016
Number of full-times employees	41	43

The return on assets, calculated as the division of net profit by the Bank's total balance, was 0.82% (2016: 0.80%).

2017 DIRECTORS' REPORT

BMCE BANK INTERNATIONAL ACTIVITY AND RESULTS REPORT FOR 2017

Note: the figures for items of the balance sheet and income statement included in this Directors' Report were obtained from management information used by the Bank's Management, prepared using different accounting classification criteria to those used to prepare the Annual Financial Statements. Nevertheless, the discrepancies between the Directors' Report and the Annual Financial Statements do not modify the Bank's profit/loss at year-end.

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I. 2017 ACTIVITY REPORT

1- ECONOMIC-FINANCIAL CONTEXT

SPAIN

The medium-term outlook for the Spanish economy remains good. Macro-economic policies are expected to underpin stronger activity. Against this backdrop, the developments in Catalonia, where the political uncertainty persists, will shape how the Spanish economy performs. The uncertainty seen in the last few months is expected to ease in early 2018. Consequently, the projected 3.1% GDP growth in 2017 could slow to 2.4% in 2018 and to 2.1% in each of the following two years.

With regard to inflation, the slowdown in CPI logged since March is expected to continue in early 2018. From spring 2018 onwards, consumer price performance will be determined mainly by the core component, which is expected to increase gradually. As a result, following the 2% logged in 2017, prices are expected to ease in the short term, before resuming growth at an average rate of 1.7% in 2020.

The volume of job creation per unit increase in GDP will remain very high, buoyed by the ongoing containment of unit labour costs. Nevertheless, job creation will decelerate in line with the gross domestic product. The sustained increase in employment will continue to push unemployment down and by the end of 2020 it should be at around 11%. The public deficit is also estimated to have diminished in 2017 to 3.2% of GDP, a trend that is expected to be maintained in the short term.

INTERNATIONAL

The Eurosystem macroeconomic forecasts published in mid-December revised up expected growth for the 2017-2019 period, to 2.4%, 2.3% and 1.9%, respectively, and the forecast is 1.7% for 2020. With regard to inflation, the most recent Eurosystem forecasts were revised down to levels of around 1% for this year and next, with an expected increase to 1.8% in 2020. Moreover, economic growth in Eastern Europe remained robust, most notably in Poland and, even more so, Romania (4.9% and 8.8% year-on-year, respectively). Turkey, meanwhile, logged much higher-than-expected growth in the third quarter (11.1% year-on-year), underpinned by stimulus measures approved by government and by the recovery in tourism.

Growth was strong in all the advanced economies in the third quarter, especially the United States (3.2% q-on-q annualised) and Japan (2.5%). In the United Kingdom, the economy gained some traction in the previous quarter (by one-tenth, to 0.4% quarter-on-quarter). In the US, CPI was 2.2% year-on-year in November, and in Japan it rose by one-tenth of a point to 0.8% in October. In the UK, the inflation rate remains above the target, reaching 3.1% in November. As for monetary policy decisions, both the Federal Reserve and the Bank of England raised their benchmark rates by 25 basis points in the quarter.

Emerging economies general posted positive activity. The Chinese economy logged 6.8% year-on-year growth in the third quarter. In Latin America, third quarter data were positive, except in Mexico, which was hampered by the impact of two earthquakes in September. Chile and Colombia posted the highest growth rates (1.5% and 0.8% year-on-year, respectively), while Brazil and Peru lagged behind.

MILESTONES IN 2017

- Solid growth in our portfolio and balance sheet, bringing it to 656 million euros.
- We have allocated a provision to the balance sheet of 4.5 million euros, affording us a significant advantage for the start of 2018.
- We have fulfilled the Regulator's requirements.
    - Risk Committee
    - Appointments and Remuneration Committee
- Alignment of the Entity with the Group's Internal Control and Audit Department, in order to strengthen the operating control and monitoring processes and relations.
- Increased cost of external resources due to the lack of support from the Parent because of its limitations on own funds.

2- STRATEGY IMPLEMENTED IN 2017

- Strengthened relations with major international brokers and large European corporations.
- Intensification of our international banking activity.
- We have obtained new business lines for our market needs.
- We have increased our clearing operations in various currencies, such as the Chinese Yuan, Pound Sterling and United Arab Emirates Dirham.

3- PROFIT/LOSS IN 2017

2017 was a **year of transition,** aimed at offsetting all the setbacks in relation to regulatory matters and correspondent accounts in $.

We have **reoriented our activity** towards markets and geographic areas to which we contribute high quality added value and, as a result, we obtained a **30% increase in the bottom line compared with 2016**, cleaning up our portfolio with **4.3 million euros in provisions**.

The Bank obtained **net profit of 5.4 million euros**, taking into account the tax hike.

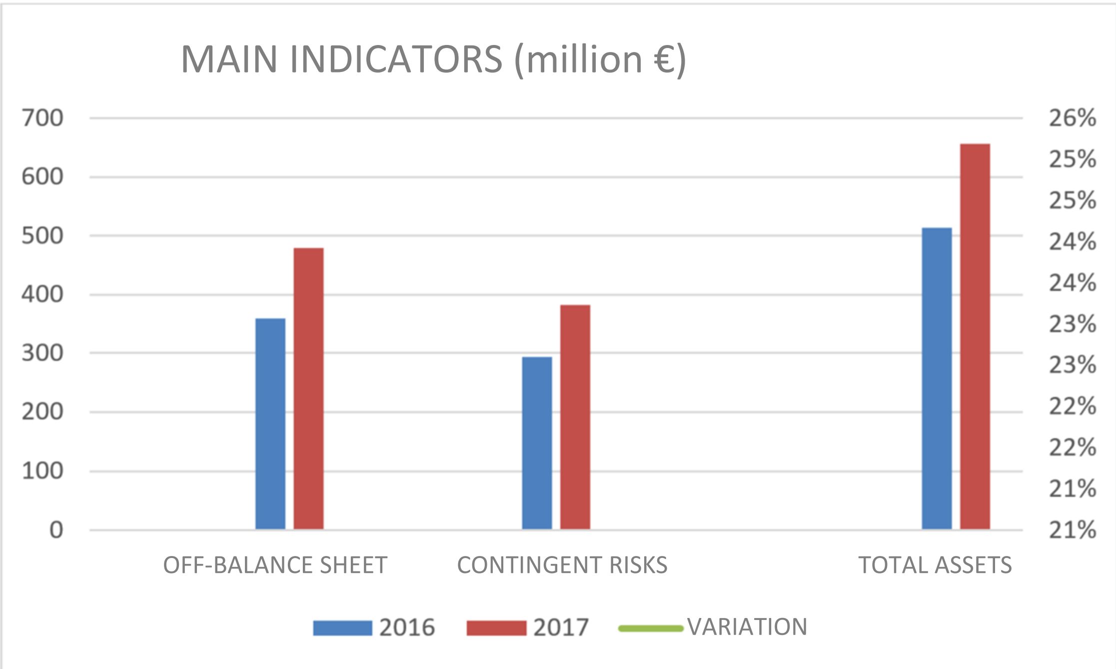
Accordingly, **we have fulfilled the expectations envisaged under the strategy designed in 2017.**

INCOME STATEMENT	*(in thousands of euros)*		
		Realised at	
	2017 forecast	**31/12/2017**	**% realised**
Interest and similar products	12,112	12,131	**100%**
Interest and similar expenses	-2,424	-2,853	**118%**
NET INTEREST INCOME	**9,688**	**9,278**	**96%**
Fees and commissions received and other income managed	7,300	7,858	
Fees and commissions paid	-350	-134	
Net fees and commissions managed	**6,950**	**7,724**	**111%**
Net exchange differences	**1,050**	**724**	**69%**
GROSS MARGIN MANAGED	**17,688**	**17,725**	**100%**
OPERATING MANAGEMENT EXPENSES	***-5,688***	***-5,582***	**98%**
Personnel expenses	-3,496	-3,404	97%
Other management expenses	-2,192	-2,178	99%
Amortisation and depreciation	**-66**	**-82**	**124%**
OPERATING PROFIT	**11,934**	**12,062**	**101%**
-Legal insolvency provisions and management allocations	-3,500	-4,230	**121%**
-Extraordinary profit/loss	0	0	
PROFIT/(LOSS) BEFORE MANAGEMENT TAX	**8,434**	**7,831**	**93%**
- Income tax and other taxes	-2,530	-2,472	98%
PROFIT/(LOSS) AFTER TAX	**5,904**	**5,359**	**91%**

4- ANALYSIS OF ACTIVITY

2017 was a brilliant year, with 25% growth in total assets, and substantial growth in the portfolio.

PORTFOLIO (million €)	2016	2017	VARIATION
OFF-BALANCE SHEET	360	480	25%
CONTINGENT RISKS	294	383	23%
TOTAL ASSETS	**514**	**656**	**22%**

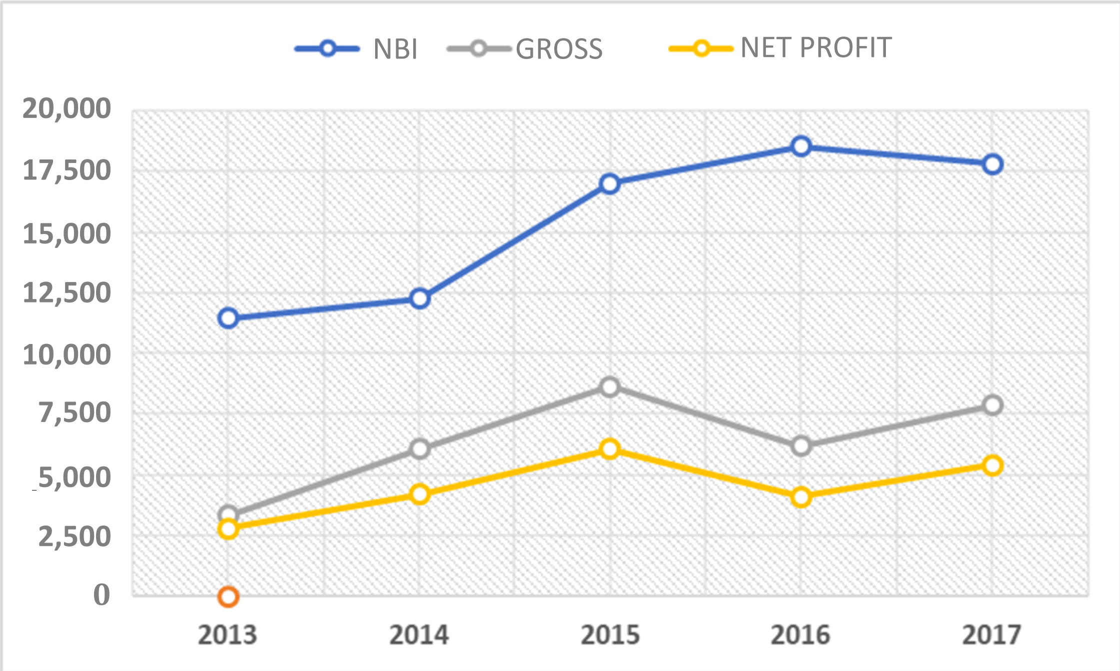


Our Entity logged a net banking income (NBI) of 18 million euros, despite the aforementioned difficulties.

The difficulties due to circumstances beyond our control have been successfully overcome, thanks to our diversification in geographic areas and countries as well as new business strategies that are proving to be very positive for the Bank.

The Portfolio yielded an excellent performance from 50 countries and 150 African, Middle-Eastern and Latin American banks.

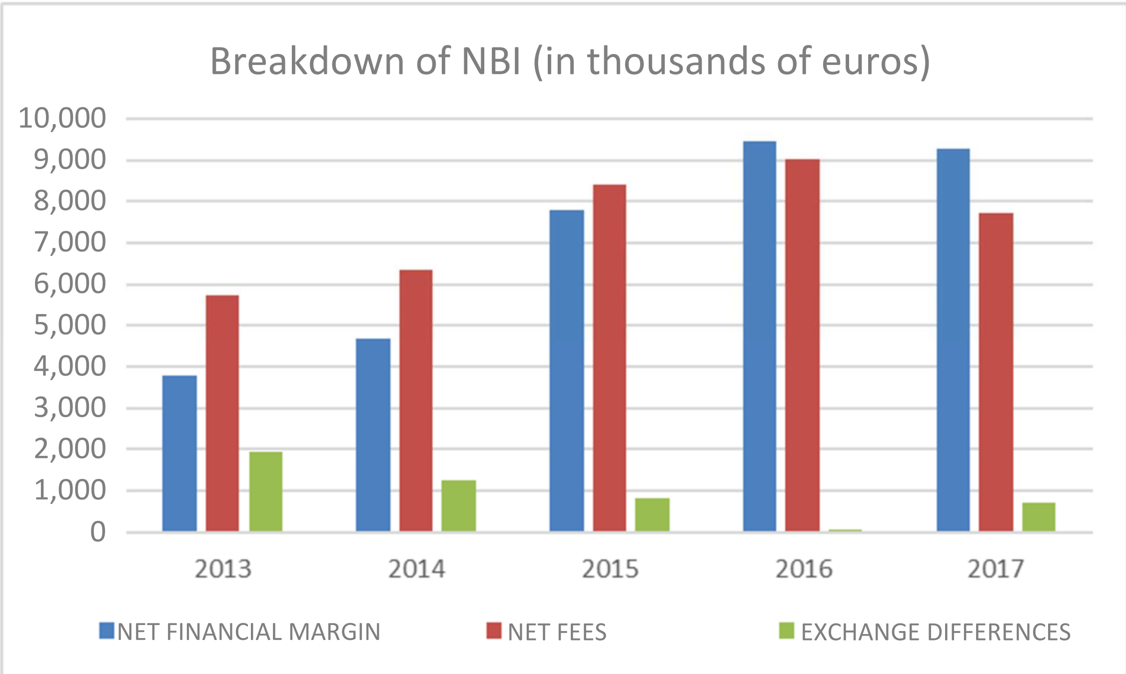
PROFIT IN THE 2013-2017 PERIOD (thousands of euros)



INTEREST RECEIVED

Thousands of €	31/12/2015	31/12/2016	31/12/2017
Interest on credit advances	3,345	3,076	3,120
Interest on customer loans	1,144	1,387	2,331
Interest on corporate operations	1,795	3,522	1,760
Interest on commercial banking operations	237	608	986
Interest on bonds and securities	2,183	2,658	3,021
Interest on cash products	109	259	693
Interest on Nostro accounts	89	92	219
TOTAL GROSS FINANCIAL MARGIN	**8,902**	**11,599**	**12,131**

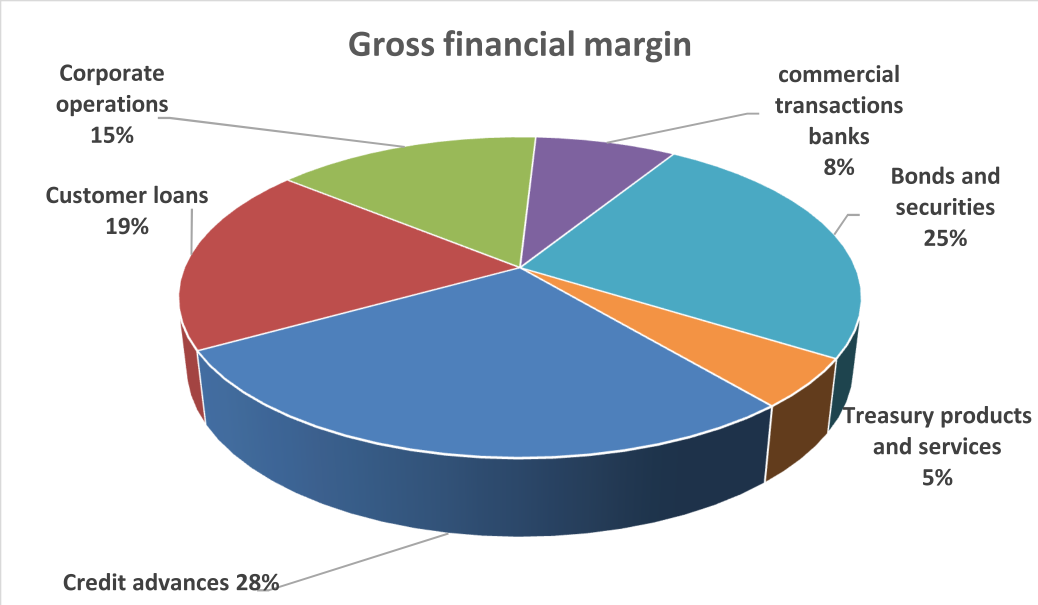
The financial margin has increased over the last few years, as our Portfolio consolidated. Moreover, diversification is strong, as we have commented, and every year we have introduced new products to meet our customers' needs.
All of this was thanks to the development of our Correspondent Banking department and the institutional aspect, intensifying our commercial and corporate relationships with major international brokers, which contribute 32% to the gross financial margin and are logging considerable growth.



Based on the composition of the financial margin, we have two especially important star products: The first is interest on commercial operations from traders (export brokerage from various commodity-producing countries to African and Middle-Eastern countries).

The second is the Product and Securities Market, which is logging a return in excess of 3 million euros.

Furthermore, another goal is to comply with the regulatory requirements linked to the liquidity coverage ratio (LCR) and its complex composition, so asset selection is fundamental to achieve maximum liquidity quality and provide solidity and stability to the ratio in the long term.



Fees in relation to the net banking income (NBI) represented 45% this year, still a significant figure within our business generation. This evidences the excellent service quality we provide to our customers.

The star among fees and commissions are letters of credit, which account for 35%, followed by commissions on transfers issued and received, which represent 27%. Lastly are the other fees on loans, policies and so on.

FEES AND COMMISSIONS RECEIVED			
in thousands of euros	31/12/2016	31/12/2017	Variation
Commissions on letters of credit	2,608	2,723	4.44%
Commissions on sureties and guarantees	471	285	-39.44%
Commissions on transfers received	4,022	1,975	-50.91%
Commissions on management of bills of exchange and remittances	261	160	-38.77%
Commissions on payment orders and transfers issued	39	113	192.95%
Commissions on financing for advances	325	518	59.46%
Other fees	1,500	2,081	38.71%
TOTAL FEES AND COMMISSIONS MANAGED	**9,226**	**7,858**	**-15%**

The composition of fees and commissions is one of the strong points of our strategy implemented in 2017: Considerable development of the services and products offered to correspondent banks in Africa, Latin American and the Middle East, and especially for clearing and lending operations.

We currently help 200 banks in 85 countries with their international operations; the sum of their MT 103, MT 202 and letter of credit transactions amounts to more than 5,828 million euros, and a total of 58,560 operations in 2017, helping us to reformulate our activity and our strategic design.

Furthermore, based on the fact that, in commercial operations the commissions are generally associated with arranging the operation, the policy of intensifying commercial relations with major firms and brokers has increased the balance of operations managed. In short, by extension this implies a reduction in the total volume and, accordingly, the fees. This fact, coupled with the surplus liquidity in markets, has led to a sharp downturn in the economic conditions of financial products and services, with individual margins much tighter than in previous years, with a direct impact on fees and commissions (many financial institutions are now offering products with no arrangement fee, for example).

Volume of products and services

in thousands of euros	31/12/2016	31/12/2017	
	volume	volume	change in volume
Financing for corporate advances:	**350,697**	**525,554**	50%
- Loan advances	232,225	305,244	31%
- Discounts	118,472	220,310	86%
Letters of credit Export. with and without confirmation	474,482	653,427	38%
Export remittances	269,407	437,767	62%
Transfers issued	1,901,022	800,063	-58%
Transfers received (with commission)	3,764,078	2,125,546	-44%
Sureties and guarantees	34,930	14,722	-58%

Group exposure continues to be limited to 70 million euros, as a result of the UK regulator's conditions on BIH.

We continue to endure a considerable impact throughout our operations with various group entities, in both Morocco and Africa as a whole. The economic impact of this is a decrease of approximately 500 million euros in turnover and an estimated 3 million euros reduction in NBI. Furthermore, another two factors have had an impact on our operations, namely a decrease in commercial transactions in US dollars and the application of country risk regulations, especially in the African continent and the Middle East.
These rules were modified in **January 2018** to reduce country risk percentages, which we list below.

	Current regulation	New regulation
COUNTRY GROUP	**PROVISION**	**PROVISION**
GROUP 1	0%	0%
GROUP 2	0%	0%
GROUP 3	10.10%	1.5%-5%
GROUP 4	22.80%	6%-12%
GROUP 5	83.50%	45.00%
GROUP 6	100.00%	100.00%

Thanks to the strategy we implemented in 2017, we managed to log and even exceed the figures posted in 2016; as evidenced by the table above, we have boosted the total volume of commercial financing by 50%, especially in forfaiting (88%) and in post-financing of letters of credit (45%). Likewise, in confirmation of letters of credit, we have seen a 37% increase, to 653 million euros received in 50 countries, most notably Morocco (with 17%), Algeria (15%), Yemen (11%), Tunisia (7%), Switzerland (6%), Lebanon (6%), Malta (6%), the UK (5%), Ivory Coat (5%), Mauritania (4%) and others.

5 - ANALYSIS OF THE BALANCE SHEET

In 2017, BMCE BANK INTERNATIONAL established targets of 600 million euros of balance sheet and 450 million euros of portfolio. We called this our "Growth Strategy".

It is evident that these targets were amply met, closing the year 2017 with 656 million euros (+ 30% compared with 2016), and a portfolio of 480 million euros (up 33% on the 360 million euros of 2016).

As defined in the breakdown of the Bank's net banking income, the **Strategy designed** for 2017 was successfully implemented, and this is shown in the balance sheet:

- **Opening of new profit centres**, mainly focusing on the **Capital Markets and Financial Institutions Department,** as evidenced by the asset position of the Interbank Market.
- **Consolidation and robustness of our competitive advantage in Africa and the Middle East for African correspondent banking**, as a clearing bank in euros and benchmark correspondent in dollars, evidenced by the significant increase in transfers executed and ratified by the excellent liabilities balances of these banks.
- **Sustainably and constant liquidity**, robustly through financial assets in relation to the LCR and with stable long-term liabilities balances of financial institutions (despite the setback triggered by caps on transactions in US dollars).
- **Further commercial progress in operating products and services with international brokers and Large Accounts,** as shown by the advances from External Trade, Loans and Syndicated Loans and Buyer.

BALANCE SHEET *(in thousands of euros)*					
ASSETS	**31/12/2016**	**31/12/2017**	**LIABILIT IES**	**31/12/2016**	**31/12/2017**
- Cash, Interbank Market	148,782	184,845	- Cash, Interbank Market	5,500	27,505
- Letters of credit used	40,394	35,507			
- Financing of commercial banking operations	46,291	58,019	Deposits:	386,177	497,061
- Financial assets	103,584	119,402			
- Financing for external trade advances	77,180	169,773	- Enterprise demand deposits	10,610	15,801
- Loans	25,328	29,509	- Bank demand deposits	187,267	221,943
- Buyer's credit and syndicated loans	80,343	63,213	- Enterprise term deposits	1,814	1,806
- Provisions	-9,649	-7,510	- Bank term deposits	186,485	257,512
- Net assets	2,487	2,478	- Sundry creditors	56,969	57,609
- Various accounts	1,933	511	- Off-balance sheet provisions	170	542
			- Equity (no result)	63,756	67,671
			- Net profit/(loss) for the year	4,100	5,359
TOTAL	**516,672**	**655,748**	**TOTAL**	**516,672**	**655,748**

OFF-BALANCE SHEET	**31/12/2016**	**31/12/2017**
- Sureties and guarantees	35,555	14,722
- Export letters of credit	38,183	84,465
- Import letters of credit	32,407	-
- Export letters of remittance	40,650	84,584
- Import letters of remittance	-	-
- IPFs and other guarantees	107,697	158,996
- Available credit lines		
- Contingent risk provision	170	542
	254,662	**343,309**

Summary of Assets

- We have **increased financial assets** by 16%, to a total of 120 million euros, as a result of the aforementioned need to include liquid assets computable for the purposes of the LCR.
- Furthermore, we have implemented a **growth strategy in forfaiting financing for foreign trade** with a 120% increase, totalling 170 million euros in December 2017.
- **A sharp increase in the Interbank Market,** from 149 million euros to 185 million euros in December 2017 resulted in positive liquidity management with our correspondents.

With regard to liabilities

On the liabilities side, professionals and commercial teams from Correspondent Banking completed in-depth development, offering quality products and services specialising in international market transactions, securing loyal relationships with correspondent banks and countries in Asia, Africa and the Middle East, and enhancing diversification between demand and term accounts in a stable and sustainable manner so as to improve risks in commercial operations.

Bank liabilities total 500 million euros, up 30%.

The balance of memorandum accounts shows an increase of 34% to 343 million euros at the end of 2017. We have halved the guarantees issued, due to the negative impact of this product on the bottom line and our policy is to reduce guarantees or secure them to a maximum, whereas import and export letters of credit and export remittances have logged very healthy growth.

We highlight our interest in and strategy of increasing off-balance sheet guarantees received, which are of great benefit to us in terms of generic and country risk provisions.

6 – ANALYSIS OF OPERATING EXPENSES

Operating expenses have decreased in relation to the budget, with efficiency being enhanced in all kinds of recurring expenses and sundry areas.

Compared with last year, there has been a 6% increase, due mainly to employee insurance and the expense of leasing a new office. We also depreciated the entire expense of the refurbishment completed in 2017.

Thousands of euros	Budget 2016	Realised 2017	Deviation
Personnel expenses	3,496	3,404	-3%
Other management expenses	2,193	2,177	-1%
Amortisation and depreciation	66	82	24%
	5,755	**5,663**	**-2%**

In addition to the above, compared with 2016, total expenses increased by 6%, i.e. 4 points less than in the previous year.

Note also that the **need for regulatory adaptation and enhancement of credit quality** led to very specific decisions being made which affected expenses:

- Given the **tougher rules on the classification of assets and contingent operations** pursuant to the new Bank of Spain **Circular 4/2016**, the **classification** of risk relating to most African and Middle-Eastern countries saw a major **setback.** With the **aim of not reducing the envisaged net interest income, the Bank opted to mitigate its impact** in terms of the provisions required, leading to the **need to secure various portfolio exposures**, assuming an impact on the marginal return, but avoiding having to sell core assets that are a **hallmark of the BMCE BANK of Africa Group**.
- **The busy regulatory agenda** of the last few months and the need for speedy adaptation meant the Bank had to seek **advice** on **solvency, liquidity, implementation plans and recovery in the event of various contingencies, as well as institutional organic adaptation** in relation to the Board of Directors, articles of association, website, risk policy and many other considerations.

In response to these needs, the expenses are recognised under **external technical regulatory reports and insurance premiums**, which together total more than half a million euros.

Meanwhile, having **stabilised the new banking core, outsourcing expenses returned to more normal figures for this kind of endeavour, around 500,000 euros.**

Accordingly, **an expense of more than one million euros** was distributed under the following three headings:

- **IT and Outsourcing**
- **Technical and Regulatory Reports**
- **Insurance and auto-insurance premiums**

Overall, and given the **excellent commercial management and growth in portfolio and turnover managed, expenses have been properly, coherently and sustainably managed**, with an **operating efficiency of 32%,** not far off the optimum results of previous years, and also a **reflection of the responsible and prudent management** that has always characterised our Entity, considerably better than the average in the European banking sector (45-48%).

7- PROVISIONS FOR DOUBTFUL AND NON-PERFORMING LOANS

In 2018 it was necessary to allocate a provision of 4.3 million euros for doubtful loans, bringing the level of provisioning of the exposure to our largest debtor to 80%. The rest of debtors classified as non-performing are provisioned in accordance with the regulatory calendar and are not significant. This provision implied a considerable effort for the Entity and, at the same time, evidences the strength of the business and our capacity to provision.

In accordance with the change of regulation effective in 2017, following the regulator's instructions, it was necessary to allocate a provision of 0.5 million euros for doubtful loans, thereby complying with the stipulations. Note that the classification of doubtful does not imply that debtors are in default.

Now that these provisions have been allocated, we can assert that the Entity's NPLs are almost entirely provisioned and its portfolio has been cleaned up, with the NPL ratio now at 2%.

Lastly, a generic and country risk provision of 0.4 million euros was allocated, in line with regulatory requirements regarding simple risk assignment, without the operations being classified as in default.

8.- CONCLUSIONS

1. The **goals set for 2017 were successfully completed**:

    a. **NBI** up 3% to around 18 million euros;
    b. **Balance sheet** amounting to 656 million euros, implying a 27% increase;
    c. **Portfolio** growing to near 480 million euros; and
    d. **Operating cost-to-income ratio** of 32%.

2. **The financial margin** represents 52% of NBI, and is close to 10 million euros.

3. The **year ended in a strengthened position in terms of both liquidity and solvency**, thanks, on the one hand, to the 50 million euros investment in high-quality financial assets, bringing our liquidity ratio to 126%, compared with 100% required by the Regulator

4. **The more intense commercial activity with correspondent banks and major international corporations and brokers** has consolidated our market position, also offsetting the regulatory turbulence endured, in terms of income and turnover.

5. The **turnover managed** in 2017 increased by 55% to around **7,000 million euros**.

6. A **2% NPL ratio** also underpins the excellent condition of our portfolio.

9- STRATEGY FOR 2018

- ✓ **To grow our Correspondent Banking business, nurturing relationships with new entities and different countries in the regions of Asia, Latin America and Africa.**
- ✓ **To invest in Islamic banking products, like Sukuk (Islamic bonds), to gain a foothold in a new business line with huge potential in the local market.**
- ✓ **To invest in assets in Eastern European countries, with financial institutions and with the purchase of fixed income in countries belonging to European Union countries or those with an association agreement.**
- ✓ **To invest in European private fixed income with an investment grade rating.**
- ✓ **To nurture our relationship with the major international traders and commence relations with other, smaller ones.**
- ✓ **To increase the investment in large European corporations and reduce exposure to small and medium-sized enterprises.**

This strategy is clearly oriented towards achieving the following goals in 2018:

1. Net profit in excess of 8 million euros.
2. Net banking income of around 20 million euros.
3. Total assets managed amounting to around 800 million euros.

10- GUIDANCE FOR 2018

GUIDANCE FOR 2018 (thousands of €)			
	31/12/2017	31/12/2018	Variation
Interest and similar products	12,131	14,600	**20%**
Interest and similar expenses	-2,853	-4,310	**51%**
NET INTEREST INCOME	**9,278**	**10,290**	**64%**
Fees and commissions received	7,858	9,017	15%
Fees and commissions paid	-134	-150	12%
Net fees and commissions	**7,724**	**8,867**	**15%**
Net exchange differences	**724**	**1,000**	**38%**
GROSS MARGIN	**17,725**	**20,907**	**18%**
OPERATING EXPENSES	***-5,582***	***-6,200***	**11%**
Personnel expenses	-3,404	-3,750	12%
Other expenses	-2,178	-2,450	9%
Amortisation and depreciation	**-82**	**-83**	**1%**
OPERATING PROFIT	**12,062**	**14,624**	**21%**
Legal insolvency provisions and allocations	-4,230	-3,000	-29%
Extraordinary profit/loss	0	0	
PROFIT/(LOSS) BEFORE TAX	**7,831**	**11,624**	**48%**
Corporate income tax	-2,472	-3,487	41%
PROFIT/(LOSS) AFTER TAX	**5,359**	**8,137**	**52%**

In accordance with the target of increasing assets, interest income is expected to rise. Likewise, due to the increase in liabilities and in anticipation of the rates hike in euros and, in particular, in dollars, growth is expected to outpace the increase in the cost of interest paid.

Fees and commissions are expected to rise in line with the increase in activity and exchange differences are expected to grow as they did in 2017.

With regard to provisions, the amount allocated is expected to comply with the new regulatory requirements, and to cover any necessary NPL amounts arising.

This provision results in an increase in the net result of more than 50%; however, the increase in the asset portfolio must be financed with the necessary liability, so the parent is expected to allocate at least 125 million euros in addition to the current financing, bringing the total afforded by the Parent to 245 million euros. Otherwise, it would not be possible to attain the established goals.

11- NEW REGULATORY FRAMEWORK FOR 2018

The new European banking regulations effective from 1 January 2018 require adaptation in all areas which imply varying impacts, the most significant of which are as follows:

- ✓ Country risk provision. The percentages change considerably, which, in the first instance, will trigger a recovery of part of the current provisions allocated. Secondly, it will allow us to resume investment in certain products that henceforth require lower provisions and may be profitable.
- ✓

	Current regulation	New regulation
COUNTRY GROUP	Provision	Provision
1	0%	0%
2	0%	0%
3	10.10%	1.5% - 5%
4	22.80%	6% - 12%
5	83.50%	45%
6	100%	100%

- ✓ Generic provision. For exposures to public administrations, financial entities and major corporations, the provision increases from 0.2% to 0.5%; which implies allocating more than double the current provision for this item, and the direct impact will be evidenced in the first quarter of the year when the difference must be allocated in the current portfolio.

- ✓ Provision for doubtful loans different from NPLs. For exposures to public administrations, financial entities and major corporations, the provision increases from 30% to 50%, a significant rise with an impact over the course of the year.

- ✓ The required liquidity ratio is up from 100% to 120%. This means high-credit-quality liquid assets must be acquired to cover the shortfall, as well as due to the target growth in assets.

- ✓ For the first time, a Liquidity Adequacy Plan is required in addition to the Capital Adequacy Plan already required, and this will require dedication and monitoring.

12- 2018 - 2020 BUSINESS PLAN

	13- BP BBI Madrid: 2018 - 2020 Business Plan					
			BUSINESS PLAN			
Assumptions						
	No dividend distribution during plan				000 Euros	
	Minimum Solvency Ratio 2017 > 12,26%					
	Minimum Solvency Ratio 2018 > 11,28%					
Balance Sheet	**'000 euros**	**2016**	**2017**	**2018**	**2019**	**2020**
	Total assets	514,441	655,837	800,000	950,000	1,164,000
	Loans to banks and cash (net)	281,210	390,185	460,000	550,000	700,000
	Loans to customers	127,194	144,601	186,000	210,000	240,000
	HTM portfolio	101,550	116,865	150,000	186,000	220,000
	Equity holding	1,063	1,439	1,063	1,063	1,063
	Fixed assets	2,487	2,478	2,395	2,312	2,229
	Other	937	269	542	625	708
	Total liabilities	514,441	655,837	800,000	950,000	1,164,000
	Deposits from banks	379,379	506,959	637,572	771,401	968,300
	Due to customers	12,424	17,607	21,000	25,935	32,030
	Other liabilities	54,783	58,241	60,261	61,461	61,466
	Reserves	63,757	67,671	73,030	81,167	91,203
	Net result	4,100	5,359	8,137	10,036	12,711
Off-balance sheet (estimate)		294,588	382,619	497,405	646,626	840,614
P&L	'000 euros	**2016**	**2017**	**2018**	**2019**	**2020**
	Interest received	11,692	12,131	14,600	17,500	23,200
	Interest paid on borrowings	2,158	2,853	4,310	5,248	7,958
	Commissions (net)	8,061	7,043	8,867	10,800	12,800
	Fx gains	53	724	1,000	1,300	1,500
	Other	-92	0	0	0	0
	Net Banking income	17,556	17,725	20,907	25,102	30,042
	Expenses	5,288	5,581	6,200	6,510	6,800
	Amortisation and depreciation	64	83	83	83	83
	Provisions	7,007	4,230	3,000	4,000	5,000
	Extraordinary profit/loss	916	681	750	750	500
	Profit before tax	6,113	7,831	11,624	14,509	18,159
	Tax	2,011	2,472	3,487	4,473	5,448
	Net profit	**4,102**	**5,359**	**8,137**	**10,036**	**12,711**
Ratios						
	ROE	6.43%	7.92%	11.14%	12.36%	13.94%
	Extraordinary profit or loss	23.37%	30.23%	38.92%	39.98%	42.31%
	Total Equity	67,857	73,030	81,167	91,203	103,914
	Risk-weighted assets (RWAs)	319,177	312,710	400,000	475,000	582,000
	Operational Risk	28,725	31,995	34,728	39,445	47,532
	Market Risk	1,646	3,379	3,886	4,469	5,139
	Solvency Ratio	19.41%	20.98%	18.51%	17.58%	16.37%

BUSINESS PLAN

In the previous sections we have provided a description of the financial statements for the year 2017 and the guidance for 2018. Note that the targets set in 2016 and 2017 were achieved within a deviation range of 10%, evidencing that the Entity has properly defined both its strategy and its goals. Regarding the longer term outlook, a business plan through 2020 has been devised, with a description of where the Bank wishes to be in each of the years. This business plan was drawn up considering the increase in assets by business line, showing notable growth in exposures with financial institutions as a result of external trading activity and, to a lesser extent, fixed income and customer exposures that should also contribute to growth.

The increase in assets must be accompanied by the necessary financing on the liabilities side and, thanks to the efforts of the various departments and particularly of the correspondent banking and treasury departments, the measures will be implemented to achieve this. Nevertheless, the Entity needs stable financing with a long-term outlook, for which purpose it relies on the Parent to provide the necessary funds to afford stability to the business and secure the established goals.

The increase in assets and profit-making business lines translates into an increase in all line items of the income statement, and boosts the cost-to-income ratio, which enables growth not only in absolute terms, but in the margins of the various business lines.
The business plan envisages a steady improvement in return on equity, boosting cost-to-income without taking considerable risks that could jeopardise the Bank's health. All of this while meeting the regulatory solvency ratio, with sufficient headroom to pass the stress tests and capital adequacy tests, affording the Entity a stable solvency ratio.

DRAWING UP OF THE ANNUAL FINANCIAL STATEMENTS AND THE DIRECTORS' REPORT

The Board of Directors of BMCE BANK INTERNATIONAL, S.A.U., in its meeting of 1 March 2018, unanimously approved the Annual Financial Statements for 2017, which include the balance sheet at 31 December 2017 and the income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year ended on that date, as well as the Directors' Report for the year ended on 31 December 2017. Furthermore, the members of the Board of Directors state that, as far as they know, said Annual Financial Statements for 2017 were prepared in accordance with the applicable accounting principles, offer a true and fair view of the equity, financial position and profit and loss of BMCE BANK INTERNATIONAL, S.A.U. and that the Directors' Report includes a true and fair analysis of the business performance and results and the position of BMCE BANK INTERNATIONAL, S.A.U., along with a description of the main risks and uncertainties facing it.

Mr Mohamed Agoumi
Director

Mr Brahim Benjelloun-Touimi
Director

Mr Azeddinne Guessous
Director

Mr Radi Hamudeh
Director

Mr Jerónimo Páez López
Director

Mr Miguel Ángel Márquez Arcos
Secretary to the Board

Ms Carme Hortalá Vallvé
Director