ANNUAL ACCOUNTS AND ANNUAL REPORT OF THE FINANCIAL YEAR 2018

ANNUAL ACCOUNTS

BALANCE SHEET

BMCE BANK INTERNATIONAL, S.A.U.

Balance sheet at 31 December 2018

ASSETS	Notes	Thousands of Euros 2018	Thousands of Euros 2017
Cash, balances with central banks and other demand deposits	**7**	**165.674**	**106.039**
Financial assets not held for trading mandatorily valued at value reasonable with changes in results		**75**	**-**
Equity instruments	**8**	75	-
Debt instruments		-	-
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Clientele		-	-
Memorandum item: lent or given as collateral with the right to sell or pledge		-	-
Financial assets at value reasonable with changes in other comprehensive income		**-**	**284**
Equity instruments	**8**	-	284
Financial assets at amortised cost		**615.222**	**545.658**
Debt instruments	**10**	153.177	116.866
Loans and advances	**9**	462.045	428.792
Central banks		-	-
Credit institutions		309.227	284.273
Clientele		152.818	144.519
Memorandum item: lent or given as collateral with the right to sell or pledge		87.242	*95.216*
Derivatives - hedge accounting		**-**	**-**
Investments in joint ventures and associates	**12**	**1.063**	**1.063**
Dependents		-	-
Joint ventures		-	-
Associates		1.063	1.063
Tangible assets	**13**	**2.498**	**2.478**
Property, plant and equipment		2.498	2.478
For own use		2.498	2.478
Loaned in operating lease		-	-
Affection to social work (savings banks and credit cooperatives)		-	-
Investment property		-	-
Of which: transferred under an operating lease		-	-
Memorandum item: acquired under a finance lease		-	-
Intangible assets		**-**	**-**
Goodwill		-	-
Other intangible assets		-	-
Tax assets	**19**	**278**	**6**
Current tax assets		278	6
Deferred tax assets		-	-
Other assets	**14**	**195**	**220**
Insurance contracts linked to pensions		-	-
Stocks		-	-
Other assets		195	220
Non-current assets and disposal groups of items classified as held for sale	**11**	**-**	**-**
TOTAL ASSETS		**785.005**	**655.748**

LIABILITIES	Notes	Thousands of Euros 2018	2017
Financial liabilities at amortised cost	**15**	**703.672**	**581.585**
Deposits		674.857	524.566
Central banks		12.000	12.500
Credit institutions		648.055	494.459
Clientele		14.802	17.607
Debt instruments issued		-	-
Other financial liabilities		28.815	57.019
Memorandum item: subordinated liabilities		-	-
Derivatives - hedge accounting		**-**	**-**
Changes in the fair value of hedged items in a portfolio hedging interest rate risk		**-**	**-**
Provisions	**16**	**1.201**	**542**
Pensions and other post-employment defined benefit obligations		-	-
Other long-term employee benefits		-	-
Outstanding tax litigation and procedural issues		-	-
Commitments and guarantees granted		1.201	542
Remaining provisions		-	-
Tax liabilities	**19**	**-**	**381**
Current tax liabilities		-	381
Deferred tax liabilities		-	-
Share capital repayable on demand		**-**	**-**
Other liabilities	**14**	**424**	**210**
Of which: social work fund (only savings banks and credit cooperatives)		-	-
Liabilities included in disposal groups of items classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**705.297**	**582.718**

BMCE BANK INTERNATIONAL, S.A.U.

Balance sheet at 31 December 2018

NET WORTH	Notes	Thousands of Euros 2018	2017
Shareholders' equity	**17**	**79.708**	**73.030**
Capital		40.635	40.635
Paid-up capital		40.635	40.635
Required unpaid capital		-	-
Non-required memorandum item		-	-
Share premium		3.198	3.198
Issued equity instruments other than equity		-	-
Equity components of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity elements		-	-
Retained earnings		-	-
Revaluation reserves		-	-
Other reserves		27.973	23.838
(-) Treasury stock		-	-
Profit for the year		7.902	5.359
(-) Interim dividends		-	-
Accumulated other comprehensive income		**-**	**-**
Items that are not reclassified to the income statement		-	-
Actuarial gains or (-) losses on defined benefit pension plans		-	-
Non-current assets and disposal groups of items classified as follows as held for sale		-	-
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income		-	-
Ineffectiveness of fair value hedges of equity instruments measured at fair value with changes in other comprehensive income		-	-
Changes in fair value of equity instruments measured at fair value with changes in other comprehensive income (hedged item)		-	-
Changes in fair value of equity instruments measured at fair value with changes in other comprehensive income (hedging instrument)		-	-
Changes in fair value of financial liabilities at fair value with changes in results attributable to changes in credit risk		-	-
Elements that can be reclassified to results		-	-
Coverage of net investments in foreign businesses (effective portion)		-	-
Currency Conversion		-	-
Hedging derivatives. Cash flow hedges (effective portion)		-	-
Changes in fair value of debt instruments measured at fair value with changes in other comprehensive income		-	-
Hedging instruments (undesignated items)		-	-
Non-current assets and disposal groups of items classified as follows as held for sale		-	-
TOTAL EQUITY		**79.708**	**73.030**
TOTAL EQUITY AND LIABILITIES		**785.005**	**655.748**
MEMORANDUM ITEM: OFF-BALANCE-SHEET EXPOSURES		**71.440**	**115.032**
Loan commitments granted	*22*	27.935	*39.417*
Financial guarantees granted		-	-
Other commitments granted	*18*	43.505	*75.615*

PROFIT AND LOSS ACCOUNT

BMCE BANK INTERNATIONAL, S.A.U.

Profit and loss account
for the year ended 31 December 2018

	Notes	Thousands of Euros 2018	Thousands of Euros 2017
Interest income	20.a	16.384	12.131
(Interest expense)	20.a	(4.355)	(2.853)
(Expenses for share capital repayable on demand)		-	-
(A) INTEREST MARGIN		**12.029**	**9.278**
Dividend income		-	-
Commission income	20.b	6.674	6.099
(Commission expenses)	20.b	(144)	(134)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	20.e	135	1.136
Gains or (-) losses on financial assets and liabilities held for trading, net		-	-
Gains or (-) losses on non-trading financial assets mandatorily measured at fair value through profit or loss, net	8	(252)	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		-	-
Gains or (-) losses resulting from hedge accounting, net		-	-
Exchange differences [gain or (-) loss], net	6.b.2	737	724
Other operating income		244	466
(Other operating expenses)		(8)	(2)
Of which: obligatory allocations to social work funds (only savings banks and credit cooperatives)		-	-
(B) GROSS MARGIN		**19.415**	**17.567**
(Administrative expenses)		(5.169)	(5.572)
(Staff costs)	20.c	(2.983)	(3.404)
(Other administrative expenses)	20.d	(2.186)	(2.168)
(Amortization)	13	(66)	(82)
(Provisions or (-) reversal of provisions)	16	(570)	(371)
(Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss or (-) net gain on change)		(2.429)	(3.949)
(Financial assets at fair value through profit or loss)	8	-	(203)
(Financial assets at amortised cost)	9.3 y 10	(2.429)	(3.746)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures or associates)		-	-
(Impairment or (-) reversal of impairment of non-financial assets)		-	-
(Tangible assets)			
(Intangible assets)		-	-
(Other)		-	-
Gains or (-) losses on derecognition of non-financial assets, net		-	-
Negative goodwill recognised in profit or loss		-	-
Gains or (-) losses on non-current assets and disposal groups of items classified as held for sale that are ineligible for sale as discontinued operations			
(C) PRE-TAX PROFITS OR (-) LOSSES FROM CONTINUING OPERATIONS		**11.181**	**7.593**
(Expenses or (-) income from taxes on the results of continuing activities)	**19**	**(3.279)**	**(2.234)**
(D) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**7.902**	**5.359**
Profit or (-) loss after tax from discontinued operations		-	-
(E) PROFIT OR LOSS FOR THE YEAR		**7.902**	**5.359**

STATE OF CHANGES IN THE NET WORTH

-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 2018

A) Statement of recognised income and expenditure for the year ended 31 December 2018...

	Thousands of Euros 2018	Thousands of Euros 2017
Profit for the year	**7.902**	**5.359**
Other comprehensive income	**-**	**-**
Items that will not be reclassified to results	**-**	**-**
Actuarial gains or (-) losses on defined benefit pension plans	-	-
Non-current assets and disposal groups of items held for sale	-	-
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	-	-
Changes in fair value of equity instruments measured at fair value with changes in other comprehensive income (hedged item)	-	-
Changes in fair value of equity instruments measured at fair value with changes in other comprehensive income (hedging item)	-	-
Changes in the fair value of financial liabilities measured at fair value with changes in profit or loss attributable to changes in credit risk	-	-
Income tax relating to items that will not be reclassified	-	-
Elements that can be reclassified to results	**-**	**-**
Hedges of net investments in foreign operations [effective portion].	-	-
Gains or (-) losses in value recognised in equity	-	-
Transferred to results	-	-
Other reclassifications	-	-
Currency Conversion	-	-
Foreign exchange gains or (-) losses recognised in equity	-	-
Transferred to results	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	-	-
Gains or (-) losses in value recognised in equity	-	-
Transferred to results	-	-
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments [undesignated items]		
Foreign exchange gains or (-) losses recognised in equity		
Transferred to results		
Other reclassifications		
Debt instruments at fair value through other comprehensive income	-	-
Gains or (-) losses in value recognised in equity	-	-
Transferred to results	-	-
Other reclassifications	-	-
Non-current assets and disposal groups of items held for sale	-	-
Gains or (-) losses in value recognised in equity	-	-
Transferred to results	-	-
Other reclassifications	-	-
Income tax relating to items that can be reclassified to profit or (-) loss	-	-
Total overall result for the year	**7.902**	**5.359**

B) Total statement of changes in equity for the year ended 31 December 2018

	Thousands of Euros											
Sources of changes in equity	Capital	Share premium	Issued equity instruments other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury stock	Profit for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
Opening balance [before restatement] 2018	40.635	3.198	-	-	23.838	-	-	-	5.359	-	-	73.030
Effects of error correction	-	-	-	-	(149)	-	-	-	-	-	-	(149)
Effects of changes in accounting policies (note 3.u)	-	-	-	-	(834)	-	-	-	-	-	-	(834)
Opening balance 2018	40.635	3.198	-	-	22.855	-	-	-	5.359	-	-	72.047
Total overall result for the year	-	-	-	-	-	-	-	-	7.902	-	-	7.902
Other changes in equity	-	-	-	-	5.118	-	-	-	(5.359)	-	-	(241)
Issuance of ordinary shares (Note 17)	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration to members) (Note 5)	-	-	-	-	-	-	-	-	(241)	-	-	(241)
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between components of equity (Note 5)	-	-	-	-	5.118	-	-	-	(5.118)	-	-	-
Increase or (-) decrease in equity resulting from business combinations	-	-	-	-		-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	-	-	-	-	-	-	-	-
Of which: discretionary allocation to social works and funds (only savings banks and credit cooperatives)	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance 2018	40.635	3.198	-	-	27.973	-	-	-	7.902	-	-	79.708

BMCE BANK INTERNATIONAL, S.A.U.

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

	Thousands of Euros											
Sources of changes in equity	Capital	Share premium	Issued equity instruments other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury stock	Profit for the year	(-) Dividends on account	Accumulated other comprehensive income	Total
Opening balance [before restatement] 2017	40.635	3.198	-	-	19.923	-	-	-	4.100	-	-	67.856
Effects of error correction	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance 2017	40.635	3.198	-	-	19.923	-	-	-	4.100	-	-	67.856
Total overall result for the year	-	-	-	-	-	-	-	-	5.359	-	-	5.359
Other changes in equity	-	-	-	-	3.915	-	-	-	(4.100)	-	-	(185)
Issuance of ordinary shares (Note 17)	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration to members) (Note 5)	-	-	-	-	-	-	-	-	(185)	-	-	(185)
Purchase of own shares	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between components of equity (Note 5)	-	-	-	-	3.915	-	-	-	(3.915)	-	-	-
Increase or (-) decrease in equity resulting from business combinations	-	-	-	-		-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	-	-	-	-	-	-	-	-
Of which: discretionary allocation to social works and funds (only savings banks and credit cooperatives)	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance 2017	40.635	3.198	-	-	23.838	-	-	-	5.359	-	-	73.030

CASH FLOW STATEMENT

BMCE BANK INTERNATIONAL, S.A.U.

Cash flow statement
for the year ended 31 December 2018

	Note	Thousands of Euros 2018	2017
(A) CASH FLOWS FROM OPERATING ACTIVITIES		**59.962**	**(3.752)**
Profit for the year		**7.902**	**5.359**
Adjustments to obtain cash flows from operating activities		**3.087**	**2.243**
Amortization	13	66	82
Other adjustments		3.021	2.161
Net increase/decrease in operating assets		**(69.330)**	**(146.030)**
Financial assets held for trading		-	-
Non-trading financial assets mandatorily measured at fair value through profit or loss		-	-
Financial assets designated at fair value through profit or loss		-	-
Financial assets at fair value with changes in other comprehensive income		209	3
Financial assets at amortised cost		(69.564)	(145.992)
Other operating assets		25	(41)
Net increase/decrease in operating liabilities		**122.301**	**135.380**
Financial liabilities held for trading		-	-
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities at amortised cost		**122.087**	135.657
Other operating liabilities		214	(277)
Income Tax Collections/Payments		**(3.998)**	**(704)**
(B) CASH FLOWS FROM INVESTING ACTIVITIES		**(86)**	**(15.764)**
Payment		**(86)**	**(15.764)**
Tangible assets	13	**(86)**	(73)
Intangible assets		-	-
Investments in subsidiaries, joint ventures and associates		-	-
Other business units		-	-
Non-current assets and liabilities classified as held for sale		-	-
Other payments related to investment activities		-	(15.691)
Collections		-	-
Tangible assets		-	-
Intangible assets		-	-
Investments in subsidiaries, joint ventures and associates		-	-
Other business units		-	-
Non-current assets and liabilities classified as held for sale		-	-
Other collections related to investment activities		-	-
(C) CASH FLOWS FROM FINANCING ACTIVITIES		**(241)**	**(185)**
Payment		**(241)**	**(185)**
Dividends	5	(241)	(185)
Subordinated liabilities		-	-
Amortization of own equity instruments		-	-
Acquisition of own equity instruments		-	-
Other payments related to financing activities		-	-
Collections		-	-
Subordinated liabilities		-	-
Issuance of own equity instruments	17	-	-
Disposal of own equity instruments		-	-
Other collections related to financing activities		-	-
(D) THE EFFECT OF CHANGES IN EXCHANGE RATES		-	-
(E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**59.635**	**(19.701)**
(F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**106.039**	**125.740**
(G) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**165.674**	**106.039**
MEMORANDUM ITEM: COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		***165.674***	***106.039***
Cash	*7*	*20*	*22*
Cash equivalents at central banks	*7*	*143.661*	*79.080*
Other demand deposits	*7*	*21.993*	*26.937*
Less: bank overdrafts repayable on demand		-	-

MEMORY

D I C E M E M O R I A T I O N

BMCE BANK INTERNATIONAL, S.A.U.

MEMORY

Year ended
31 December 2018

1. GENERAL INFORMATION

BANQUE MAROCAINE DU COMMERCE EXTÉRIEUR INTERNATIONAL, S.A.U. (hereinafter, the Bank or the Entity) is a credit institution incorporated in Madrid (Spain) in 1993, commencing operations in January 1995. Its corporate purpose is to carry out all types of banking operations in general, as established in its Articles of Association, and it is subject to the rules and regulations of banking institutions operating in Spain and credit institutions in general.

On December 13, 2016, the Bank's sole shareholder agreed to change its corporate name to "BMCE BANK INTERNATIONAL, S.A.U.". This change became public and was registered in the Mercantile Registry on December 15, 2017.

The Bank has its registered office in Madrid, calle Serrano, 59, and will be active in 2018 and 2017, in addition to its bank branch in Madrid, through representative offices in Barcelona and Portugal, employing 45 people in 2018 (2017: 41 people).

These annual accounts were prepared by the Bank's Board of Directors at its meeting on 22 March 2019 and were signed by the directors whose caption appears at the end of these. They are pending approval by the Sole Shareholder, but the Directors consider that they will be approved without modifications.

As a credit institution, the Bank is subject to certain legal regulations, which regulate, among other things, aspects such as:

- Maintenance of a minimum percentage of funds deposited with 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 own resources. The regulations establish, in summary, the obligation to maintain sufficient own resources to cover the requirements for the risks contracted.

- Annual contribution to the Deposit Guarantee Fund, as an additional guarantee to that provided by the Entity's own resources to its creditors, the purpose of which is to guarantee up to 100,000 euros for customer deposits under the terms established by current legal regulations.

- Contribution to the National Resolution Fund established by Law 11/2015, of 18 June, together with its regulatory development through Royal Decree 1012/2015, of 6 November, which transposes into Spanish law Directive 2014/59/EU, of 15 May, which establishes a new framework for the resolution of credit institutions and investment service companies.

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

On July 30, 2001, the Bank of Spain declared exempt from the limit on the concentration of risks held by the Bank vis-à-vis its parent company, in accordance with current legislation, which establishes exceptions to the limit on the concentration of risks for assets representing loans from Spanish credit institutions vis-à-vis their parent company, provided that such institutions are included in the consolidated supervision of the foreign group to which they belong, the latter's parent company being a credit institution authorised in a country whose regulation on the concentration of risks has been declared equivalent to that of Spain by the Bank of Spain. This exemption, which has been granted at the Bank's request, shall be valid as long as the equivalence of rules is not altered.

2. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

a) Basis of presentation

The annual accounts have been prepared on the basis of the Bank's accounting records and are presented in accordance with the models established by Bank of Spain Circular 4/2017 of 27 November (hereinafter, Circular 4/2017) and other mandatory standards approved by the Bank of Spain, so that they give a true and fair view of the Bank's net worth and financial position at 31 December 2018 and of the results of its operations and the changes in net worth and cash flows for the year then ended.

Bank of Spain Circular 4/2017 for credit institutions, on public and reserved financial reporting standards and model financial statements, came into force on 1 January 2018. The purpose of this Circular is to adapt the accounting system of Spanish credit institutions to the changes in the European accounting system arising from the adoption of two new International Financial Reporting Standards (IFRS), basically "IFRS 15 - Revenue from Customer Contracts" and "IFRS 9 - Financial Instruments".

In preparing the 2018 annual accounts, the accounting principles and rules and valuation criteria set out in Circular 4/2017, which are summarised in Note 3, were followed. There are no mandatory accounting principles or valuation criteria which, having a significant effect on the annual accounts, have not been applied.

The Bank's annual accounts for fiscal year 2017 were approved by the Bank's Sole Shareholder on October 29, 2018.

(b) Use of judgements and estimates in the preparation of annual accounts

The information included in the annual accounts is the responsibility of the Bank's Directors. In preparing certain information included in these financial statements, the directors used judgements and estimates based on assumptions that affect the application of accounting policies and principles and the amounts of assets, liabilities, income, expenses and commitments recorded therein. The most significant estimates used in the preparation of these annual accounts relate to:

- Mandatory financial assets at fair value through profit or loss (Note 3-f).
- Impairment losses on financial assets (Note 3.h) and investments in subsidiaries, joint ventures and associates (Note 3.k).
- Impairment losses and the useful lives of tangible assets (Note 3.l).
- The estimated fair value of financial assets and liabilities (Note 6.l.e).
- The estimate of whether or not provisions should be recorded and the amount, if any, of the provisions to be recorded (see Notes 3-n and 3-o).

The estimates and assumptions used are based on historical experience and other factors considered to be the most reasonable at the present time, and future events may require them to be modified in coming years. This amendment would be made by recognising the effects of the change in estimate in the income statement.

c) Comparison of information

As required by current legislation, the information contained in these explanatory notes relating to 2017 is presented solely and exclusively for purposes of comparison with that of the year ended 31 December 2018.

As of 1 January 2018, Bank of Spain Circular 4/2017 of 27 November replaces Bank of Spain Circular 4/2004 of 22 December 2004 and its subsequent amendments and includes, among other things, amendments to the requirements for the classification and valuation of financial assets and liabilities and the impairment of financial assets. The effects of the first application of Bank of Spain Circular 4/2017 of 27 November are presented in note 3.u.

For this reason, certain information referring to fiscal year 2017 has been presented in accordance with the new nomenclature in order to present it homogeneously with the fiscal year ended December 31, 2018.

Certain amounts relating to 2017 have been reclassified in these annual accounts in order to make them comparable with those of the current year and to facilitate comparison.

3. VALUATION PRINCIPLES AND CRITERIA APPLIED

The most important accounting principles and criteria applied in the preparation of these annual accounts are those summarised below, which are in accordance with Bank of Spain Circular 4/2017 of 27 November. A summary of the most significant is presented below:

a) Principle of a going concern

The information contained in these annual accounts has been prepared considering that the Bank's management will continue in the future, and therefore the accounting standards have not been applied with the objective of determining the value of the net assets for the purposes of their total or partial transfer, nor for a hypothetical liquidation.

b) Accrual principle

These annual accounts, except for the cash flow statement, were prepared on the basis of the actual flow of goods and services, regardless of when they were paid or collected.

(c) Clearing of balances

Only balances receivable and payable arising from transactions that, contractually or as required by law, provide for the possibility of offsetting are offset and the intention is to settle them on a net basis or to realise the asset and settle the liability simultaneously.

As of December 31, 2018 and 2017, the Bank has no offsetting financial assets and liabilities. Also, at those dates the Bank has no rights of set-off associated with financial assets and liabilities subject to enforceable contractual netting arrangements that have not been offset.

d) Transactions in foreign currency

For the purposes of these financial statements, the functional and presentation currency is deemed to be the euro, and foreign currency is defined as any currency other than the euro.

On initial recognition, foreign currency balances receivable and payable were translated to euros using the spot exchange rate at the recognition date, understood as the spot rate for immediate delivery. Thereafter, the following rules apply for the conversion of balances denominated in foreign currency into euro:

- Monetary assets and liabilities have been translated to euros using the exchange rates at the end of each year.
- Non-monetary items measured at historical cost were translated at the exchange rate prevailing at the date of acquisition.
- Income and expenses have been translated at the exchange rate prevailing on the date of the transaction.

- Depreciation has been translated by applying the exchange rate applied to the corresponding asset.

Exchange differences arising from the translation of foreign currency balances are recorded in the profit and loss account (at December 31, 2018 and 2017 the Entity did not have any non-monetary items in foreign currency that were subject to valuation 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 rule, income is recognised at the fair value of the consideration received or to be received, less discounts, rebates or commercial rebates. When the cash inflow is deferred over time, fair value is determined by discounting future cash flows.

The effective interest method is used for the recognition of interest in the profit and loss account.

The recognition of any income in the profit and loss account or in equity shall be subject to compliance with the following assumptions:

- Its amount can be estimated reliably.
- It is probable that the Entity will receive the economic benefits.
- The information is verifiable.

When doubts arise about the collection of an amount previously recognised in income, the amount whose collectibility is no longer probable is recognised as an expense rather than as less income.

f) Financial instruments

A financial instrument is a contract that gives rise to a financial asset in one entity and, simultaneously, a financial liability or equity instrument in another entity.

A financial asset is any contract that is cash, a capital instrument of another entity, a contractual right to receive money or another financial asset from a third party or to exchange with a third party financial assets or financial liabilities on potentially favourable terms. Also, a financial asset is a contract that can be, or will be, settled with the Bank's own issued capital instruments.

A financial liability is any commitment that involves a contractual obligation to deliver cash or another financial asset to a third party, or to exchange with a third party, financial assets or financial liabilities under potentially unfavourable conditions. Also, a financial liability is a contract that can be, or will be, settled with the Bank's own capital instruments.

The financial instruments issued by the Bank, as well as their components, are classified as financial assets or financial liabilities at 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 liabilities with which the Bank routinely trades are debt instruments.

f.1) Financial assets

The Entity's financial assets correspond to cash on hand, cash at central banks and credit institutions, loans and advances, debt securities and equity instruments.

Circular 4/2017 contains three main categories of classification for financial assets: valued at amortized cost, valued at fair value with changes in other accumulated global result, and valued at fair value with changes in results.

The classification of financial instruments into a category of amortised cost or fair value has to undergo two tests: the business model and the contractual cash flow assessment, commonly known as the "Principal and Interest Only Payment Criterion" (hereinafter SPPI).
The Bank classifies its financial assets in the following portfolios:

- "Financial assets at amortised cost": includes financial assets that are held within the framework of a business model whose objective is to hold financial assets to obtain contractual cash flows and the contractual conditions of the financial asset give rise to cash flows that are only principal and interest payments, basically understood as compensation for the time value of money and the debtor's credit risk.

- "Financial assets at fair value with changes in other comprehensive income": includes debt instruments whose contractual terms respond only to payments of principal and interest, but which the entity manages by combining the objective of collecting the flows with that of the sale of the instruments. In addition, those equity instruments that the entity voluntarily and irrevocably designated at inception in this portfolio are recorded in this portfolio. Changes in the fair value of all these assets are recognised in equity (other comprehensive income). In the case of investments in debt instruments, the changes in accumulated value remain in equity until the asset is derecognised, leading to its reclassification to the profit and loss account; in the case of equity instruments, on the other hand, such accumulated changes are reclassified directly to reserves when the asset is derecognised.

- "Mandatory financial assets at fair value through profit or loss': financial assets that do not qualify for classification in either of the two previous portfolios and those held by the entity for trading, including derivatives other than hedging derivatives, must be classified in this portfolio.

At December 31, 2018 and 2107, the Bank had no financial assets classified in the portfolios "Financial assets held for trading", "Financial assets at fair value through other comprehensive income" and "Financial assets designated at fair value through profit or loss".

On initial recognition on the balance sheet, financial assets are recognised at fair value. Fair value is the amount for which an asset could be delivered, or a liability settled, between knowledgeable, 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 and deep market ("quoted price" or "market price"). When a certain financial instrument lacks a market price, its fair value is estimated using the fair value established in recent transactions involving similar instruments and, failing this, valuation models sufficiently contrasted by the international financial community, taking into account the specific characteristics of the instrument to be valued and, in particular, the different types of risks associated with the instrument.

In 2018 and 2017 there were no differences in the initial recognition of assets due to differences between the transaction price and fair value.

After initial recognition, financial assets included in the "Financial assets at fair value through profit or loss" and "Financial assets at fair value through profit or loss" portfolios are carried at fair value unless the Bank does not have sufficient information to determine their fair value and are measured at acquisition cost and the financial assets included in the "Loans and advances" portfolios are measured at amortised cost. Exchange differences on securities denominated in currencies other than the euro included in these portfolios are recorded in accordance with Note 3-d.

The amortised cost is the amount at which the financial instrument was initially measured, less principal repayments, plus or minus, as appropriate, the portion allocated in the income statement, using the effective interest method, of the difference between the initial amount and the repayment value at maturity and minus any impairment losses recognised directly as a reduction in the amount of the asset or through an allowance account for its value.

The effective interest rate is the discount rate that exactly matches the initial value of a financial instrument to all of its estimated cash flows of all kinds over its remaining life. For financial instruments with a fixed interest rate, the effective interest rate coincides with the contractual interest rate established at the time of acquisition plus, where appropriate, fees and commissions which, by their nature, are similar to an interest rate. In financial instruments with variable interest rates, the effective interest rate coincides with the rate of return in force for all concepts until the first review of the reference interest rate that will take place.

Financial assets are derecognised from the Bank's balance sheet when contractual rights over cash flows have expired or when they are transferred, provided that the risks and rewards of ownership are substantially transferred in the transfer or, in the absence of a substantial transfer or retention of risks and rewards, control of the financial asset is transferred. In the latter case, when control of the asset is not transferred, they will continue to be recognised for their continuing commitment, i.e. for an amount equal to the Bank's exposure to changes in the value of the financial asset transferred.

The carrying amount of financial assets is adjusted by the Entity with a charge to the profit and loss account when there is objective evidence that an impairment loss has occurred (see Note 3.h).

f.2) Financial liabilities

The Entity's financial liabilities correspond mainly to deposits from credit institutions, customer deposits and other financial liabilities corresponding to pending payment orders and collection accounts.

At 31 December 2018 and 2017, the Bank had all financial liabilities classified as "Financial liabilities at amortised cost". On initial recognition on the balance sheet, financial liabilities are recognised at fair value. After initial recognition, all financial liabilities are measured at amortised cost.

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

f.3) Gains and losses on financial instruments

Gains and losses on financial instruments are recorded depending on the portfolio in which they are classified.

For financial instruments measured at amortised cost, changes in fair value are recognised when the financial instrument is derecognised and, in the case of financial assets, when it becomes impaired. Interest on financial instruments classified in this category is calculated using the effective interest method.

g) Guarantees granted

“Guarantees granted” are defined as contracts whereby the Bank undertakes to pay specific amounts by a third party in the event that the third party fails to do so. The main contracts included under this heading, which are included in the "Memorandum item" at the end of the balance sheet, are guarantees (both financial and technical) and irrevocable documentary credits issued or confirmed by the Bank.

h) Impairment of financial assets

In 2018 the Bank applied the changes introduced by Bank of Spain Circular 4/2017, which repealed Bank of Spain Circular 4/2004 in order to adapt it to the latest developments in banking regulation and came into force on 1 January 2018.

Among the changes introduced in that circular and which arise directly from the amendments to IFRS 9, the change in the model of impairment of financial assets should be highlighted, which is no longer based on the loss incurred but is estimated on the basis of the expected loss. The aim of this change is to achieve a more appropriate valuation of assets and a faster recognition of their impairment.

Impairment losses for the period on debt instruments are recognized as an expense in the income statement. Impairment losses on debt instruments at amortised cost are recognised against an allowance account that reduces the carrying amount of the asset, while impairment losses on debt instruments at fair value through other comprehensive income are recognised under accumulated other comprehensive income.

Hedges for impairment losses on exposures involving credit risk other than debt instruments shall be recorded on the liability side of the balance sheet as a provision. Impairment losses for the period shall be recorded as an expense in the income statement.

Subsequent reversals of previously recognised impairment losses are immediately recognised as income in the income statement for the period.

The Bank applies a definition of default for financial instruments that is consistent with that used in internal credit risk management, as well as with the indicators set out in the banking regulations applicable on the date of entry into force of Bank of Spain Circular 4/2017. Both qualitative and quantitative indicators are considered.

The Bank considers non-compliance to have occurred in one of the following situations:

- A non-payment of more than 90 days; or

- There are reasonable doubts about the full repayment of the instrument.

Non-compliance of 90 days is a rebuttable presumption in cases where the entity considers, on the basis of reasonable and documented information, that it is appropriate to use a longer period.

This definition is applied consistently within the Bank.

For the recording of impairment losses, the expected credit losses from operations shall be recognized, considering the provisions of Annex IX of Bank of Spain Circular 4/2017, as well as the following definitions:

- Credit losses correspond to the difference between all contractual cash flows due to the Bank under the financial asset contract and all cash flows it expects to receive, discounted at the original effective interest rate or, for financial assets purchased or originated with credit impairment, at the effective interest rate adjusted for credit quality.

  In the case of loan commitments granted, a comparison is made between the contractual cash flows due to the Bank in the case of the drawdown of the loan commitment and the cash flows it expects to receive if the commitment is available. In the case of financial guarantees granted, this considers the payments that the Bank expects to make less the cash flows that it expects to receive from the guaranteed holder.

  The Bank estimates the cash flows of the operation during its expected life taking into account all the contractual terms and conditions of the operation (such as early redemption options, extension options, redemption options and similar).

  Among the cash flows to be taken into account, the Bank includes cash flows from the sale of collateral received or other credit enhancements that form an integral part of the contractual terms, such as financial guarantees received.

- Expected credit losses correspond to the weighted average of credit losses, using as weightings the respective risks of events of default, taking into account the following distinction:

  (i) Expected credit losses over the life of the transaction: expected credit losses resulting from all possible events of default during the expected life of the transaction.

  ii) Expected credit losses in twelve months: these are the portion of the expected credit losses over the life of the transaction that corresponds to the expected credit losses resulting from events of default that may occur in the transaction in the twelve months following the reference date.

  The amount of impairment losses is calculated on the basis of whether or not there has been a significant increase in credit risk since the initial recognition of the transaction and whether or not an event of default has occurred. Thus, the allowance for impairment losses on transactions will be equal to:

  - The expected credit losses in twelve months, when the risk of an event of default in the operation has not increased significantly since its initial recognition.

  - The expected credit losses over the life of the transaction, if the risk of an event of default in the transaction has increased significantly since its initial recognition.

  - The expected credit losses, when an event of default has occurred in the operation.

If transactions are reclassified between portfolios of financial assets, the Bank will treat the reclassification date as the date of initial recognition.

The future cash flows of a debt instrument will be all the amounts that the Bank estimates it will obtain over the expected life of the instrument. The estimate shall consider all relevant information available at the reporting date of the financial statements that provides data on the future collection of contractual cash flows.

In estimating the future cash flows of secured transactions, the cash flows obtained from their sale, less the amount of the costs necessary to obtain, maintain and subsequently sell them, shall be taken into account.

In estimating the present value of future cash flows, the discount rate used is the original effective interest rate of the transaction (or an approximation thereof).

Credit exposures are classified according to credit risk in one of the categories listed below:

a) Normal risk. Includes those transactions for which your credit risk has not increased significantly since initial recognition. The impairment coverage is equal to the expected credit losses in twelve months. Interest income is calculated by applying the effective interest rate to the gross carrying amount of the transaction.

(b) Normal risk in special surveillance. Includes those transactions for which your credit risk has increased significantly since initial recognition, but there is no event of default. The impairment coverage is equal to the expected credit losses over the life of the transaction. Interest income is calculated by applying the effective interest rate to the gross carrying amount of the transaction.

c) Doubtful risk. It includes those operations with credit deterioration, that is to say, that present an event of noncompliance. The coverage is equal to the expected credit losses. Interest income is calculated by applying the effective interest rate to the amortised cost (ie adjusted for any impairment adjustments) of the financial asset.

d) Failed risk. This category includes operations for which there is no reasonable expectation of recovery. Classification in this category shall be accompanied by the recognition in profit or loss of losses on the carrying amount of the transaction and its total derecognition of the asset.

<u>Operations classified as normal risk under special surveillance.</u>

To determine whether a transaction presents a significant increase in credit risk since its initial recognition, the Bank assesses, at each reporting date, whether the credit risk of a transaction has increased significantly since initial recognition. To make this assessment, it shall analyse the change in the risk of a default event occurring during the expected life of the transaction, rather than the change in the amount of expected credit losses.

For loan commitments, financial guarantees and other commitments granted, the Bank shall make the evaluation described above taking as its initial recognition date the date on which it irrevocably becomes a party to the contract.

Irrespective of the information available for evaluating the significant increase in credit risk, it shall be presumed that there has been a significant increase in credit risk when there are overdue amounts in such transactions older than thirty days.

Notwithstanding the foregoing, if a transaction is determined to have low credit risk at the reference date, the Bank may consider that there has not been a significant increase in risk without the need for an evaluation.

A transaction will be considered low credit risk if the holder has a good capacity to meet its contractual payment obligations in the immediate future, and adverse changes in long-term economic and commercial conditions may reduce its capacity to pay, but not necessarily its capacity to meet its contractual payment obligations.

Impairment coverage shall be adjusted to reflect expected credit losses in twelve months when, in a prior period, the hedge of a transaction was the expected credit losses over the life of the transaction and, in the current period, there is no longer a significant increase in credit risk since initial recognition.

Transactions classified as doubtful risk.

Operations with credit deterioration will be classified as doubtful risk. A transaction has a credit impairment when an event of default has occurred, and can be identified by a single event or by a combined effect of several events.

When the transaction is no longer classified as a doubtful risk, interest income shall be calculated by applying the effective interest rate to the gross carrying amount of the transaction.

In the case of doubtful risks, the interest recognised in the income statement is the result of applying the effective interest rate to the amortised cost, i.e. adjusted for any value adjustment for impairment losses. In any case, the amortised cost of a transaction, once interest has been recognised, may not exceed the present value of the cash flows expected to be received, discounted at the original effective interest rate. If the former is higher, the excess is recognised as an impairment loss in the income statement, increasing the cumulative amount of previously constituted impairment adjustments.

Individualized estimates of coverages

The hedges of the following doubtful transactions are estimated on a case-by-case basis:

a) Hedges of doubtful transactions due to significant non-performing loans.

b) Hedges of doubtful transactions for reasons other than delinquency. As an exception, the hedges of transactions, other than those identified as having low credit risk, which are classified as doubtful for reasons other than delinquency, considering only automatic classification factors, shall be subject to collective estimation.

c) Hedges of doubtful transactions, both for non-performing loans and for reasons other than non-performing loans, which are identified as having a low credit risk.

d) Hedges of doubtful transactions that do not belong to a homogeneous risk group and, therefore, for which the Bank cannot develop internal methodologies for the collective estimation of credit losses from these transactions.

The coverage of the following normal operations under special surveillance is subject to individualized estimation:

a) Hedges of normal special surveillance operations that the Bank considers significant.

b) Hedges of operations classified as normal under special surveillance as a result of an individual analysis of the operation in which some factor other than automatic ones has had a decisive influence.

c) Hedges of normal special surveillance operations that do not belong to a homogeneous risk group and, therefore, for which the Bank cannot develop internal methodologies for the collective estimation of credit losses from these operations.

Collective estimates of coverages

Hedges of all transactions for which an individual estimate does not have to be made shall be collectively estimated.

In this regard, since the Bank does not have sufficient historical and statistical experience in this respect, it has used the parameters established by the Bank of Spain, based on its experience and sector information, which determine the method to be used to cover impairment losses on debt instruments and contingent risks classified as normal risk, which are periodically modified in accordance with the evolution of the aforementioned data. This method of determining the coverage of impairment losses on debt instruments not measured at fair value through profit or loss and on contingent risks classified as normal or doubtful due to default is performed by applying percentages of the amount of risk not covered by the amount to be recovered from effective collateral. The aforementioned percentages vary depending on the risk segment to which these debt instruments belong and contingent risks within the normal risk, normal risk in special surveillance or doubtful risk, depending on their ownership and purpose.

Country

Debt instruments not measured at fair value with changes in the profit and loss account, as well as contingent liabilities, regardless of the customer, are analysed to determine their credit risk per country risk. For this purpose, the Entity classifies the countries to which operations are assigned in risk groups based on indicators on their economic and political situation, as well as payment capacity and experience, assigning coverage percentages for each risk group established in Bank of Spain Circular 4/2017 for each classification.

At 31 December 2018, the Bank had recorded a provision for country risk amounting to EUR 1,547 thousand (2017: EUR 872 thousand) (see Note 9.3).

i) Accounting hedges

In 2018 and 2017 the Bank had no accounting hedges.

(j) Financial asset transfer transactions

The Bank derecognises a transferred financial asset when it transfers in full all contractual rights to receive the cash flows it generates or when, while retaining these rights, it assumes the contractual obligation to pay them to the transferees and the risks and rewards of ownership of the asset are substantially transferred.

In all transfers of assets made, the Bank always transfers substantially all the risks and rewards associated with ownership of the asset. Also, the Bank has no continuing involvement in the transferred financial assets, i.e. it does not retain any of the contractual rights or obligations inherent in the transferred financial asset or obtains any new contractual right or obligation in relation to the transferred financial asset.

At 31 December 2018 and 2017, the Bank had not carried out asset securitisations.

k) Investments in subsidiaries, joint ventures and associates

Investments in subsidiaries, joint ventures and associates are recognised at cost and corrected for impairment if there is evidence of impairment. To calculate impairment losses, the Bank compares the recoverable amount (the higher of fair value less costs to sell and value in use) with its carrying amount. Impairment losses and recoveries of value disclosed through this valuation are recognised immediately in the income statement.

l) Tangible assets

Tangible assets include buildings (bank and representative offices), furniture, computer equipment and other facilities owned by the Bank. Tangible assets are classified according to their destination into tangible assets for own use.

Tangible assets for own use are measured at cost less accumulated amortisation and, if any, less any impairment losses.

The acquisition or production cost of tangible assets, net of their residual value, is depreciated on a straight-line basis over the years of estimated useful life of the various items, as detailed below:

	Years of Useful Life
Buildings for own use	50
Furniture, installations and others	3 to 12
Computer equipment	4

Upkeep and maintenance expenses, which do not increase the useful life of the asset, are expensed in the year in which they are incurred.

Tangible assets are derecognised when they are available or when they are permanently withdrawn from use and no future economic benefits are expected from their disposal, assignment or abandonment. The difference between the amount of the sale and its carrying amount is recognised in the income statement for the period in which the asset is derecognised.

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

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

All procedural expenses associated with the reclamation and adjudication of these assets are recognised immediately in the profit and loss account for the adjudication period. Registry expenses and taxes settled may be added to the initially recognised value provided that this does not exceed the appraisal value less the estimated costs of sale referred to in the preceding paragraph.

If the carrying amount exceeds the fair value of the assets, net of their costs to sell, the Bank adjusts the carrying amount of the assets by the amount of the excess, with a balancing entry under "Gains or Losses from Non-Current Assets and Disposable Groups of Items Classified as Held for Sale Not Eligible for Discontinued Operations" in the income statement. In the event of subsequent increases in the fair value of the assets, the Bank reverses the losses previously recognised, increasing the carrying amount of the assets up to the limit of the amount prior to their possible impairment, with a balancing entry under "Gains or Losses on Non-Current Assets and Disposable Groups of Items Classified as Held for Sale Not Eligible for Discontinued Operations" in the consolidated income statement.

(n) Commitments to staff

Short-term remuneration

This type of remuneration is valued, without discounting, at the amount payable for the services received, and is generally recorded as personnel expenses for the year and as a liability accrual account for the difference between the total expense and the amount already paid.

Pension commitments

Under the current collective bargaining agreement, Spanish banks undertake to supplement the social security benefits received by their employees and beneficiaries in the event of retirement, permanent disability, widowhood and orphanhood. The first of these commitments does not apply to persons employed in banking since March 1980. The Bank has taken out a group life insurance policy that covers the risks of permanent disability, widowhood and orphanhood, as well as deaths in the act of service.

As of December 31, 2018 and 2017, there is no retirement commitment to current or former Bank personnel, since no employee has the seniority indicated.

At December 31, 2017, the Bank had a commitment with its former General Manager to make contributions to a "Defined Contribution Plan". This predetermined contribution (determined as a percentage of annual remuneration) was made to a separate entity, with no legal or effective obligation for the Bank to make additional contributions if the separate entity was unable to meet the remuneration related to the services rendered in the current and prior years. In 2017 an expense of 84 thousand euro was recorded in the profit and loss account. The insurance company used to cover this commitment was Mapfre Vida.

At 31 December 2018, the Bank had no commitments to contribute to defined contribution plans.

Also, in accordance with the Banking collective bargaining agreement in force (published in the B.O.E. of June 15, 2016), the Bank has a Complementary Social Welfare System with a defined contribution in favor of active personnel hired as of March 8, 1980, and who have at least two years of seniority in the company. The minimum annual contribution payable by the company will be 300 euros in each of the years 2015 and 2016, 400 euros in 2017 and 450 euros from 2018, according to the current banking agreement. The contributions made in 2018 amounted to EUR 14 thousand (2017: EUR 11 thousand), which were recognised in the consolidated income statement for 2018.

Severance indemnities

In accordance with current labour legislation, companies are obliged to pay severance payments to employees who are dismissed without just cause. There is no personnel reduction plan that makes it necessary to create a provision for this item.

o) Other provisions and contingencies

The Bank differentiates between provisions and contingent liabilities. The former are creditor balances covering present obligations at the balance sheet date arising as a result of past events from which patrimonial damages to the Entity may arise, which are considered probable as to their occurrence; specific as to their nature but indeterminate as to their amount and/or time of cancellation, while the latter are possible obligations arising as a result of past events, the materialisation of which is conditioned on the occurrence or non-occurrence of one or more future events beyond the Entity's control.

The Bank's annual accounts include all significant provisions with respect to which it is estimated that the probability that the obligation will have to be met is greater than otherwise. Contingent liabilities are not recognised in the annual accounts but are disclosed in memorandum accounts.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are re-estimated at each balance sheet date, are used to meet the specific obligations for which they were originally recognised.

Legal proceedings and/or ongoing claims

On 12 June 2018, the Bank of Spain notified the Bank of the resolution to initiate disciplinary proceedings against the Bank and the persons who formed part of its Board of Directors in relation to the inspection carried out by the Bank of Spain on the financial statements of 30 June 2017. On 5 October 2018, the Bank of Spain notified the Statement of Objections from which two very serious alleged infringements could be deducted in relation to non-compliance with corporate governance rules and deficiencies or shortcomings in risk control, administrative and accounting procedures. On November 21, 2018, the Bank notified Banco de España of the allegations in the Statement of Objections, which include details of all the measures adopted by the Bank in relation to each of the breaches or deficiencies established. The Bank's directors consider that, although the contingencies arising from the initiation of such proceedings cannot be quantified at the date of preparation of these financial statements, taking into account the measures adopted and the verbal and written opinion expressed by their advisors, if such contingencies should materialize, the amount of the penalty derived therefrom would not exceed a total of 1.000 thousand and, therefore, consider that the contingencies arising from the aforementioned sanctioning process in progress are not material to the Bank's 2018 annual accounts taken as a whole, and therefore the 2018 annual accounts do not include a provision for this item.

At the date of preparation of these annual accounts, the Bank is in a position to sue for dismissal during the year. However, the directors consider that the economic consequences that could derive from it will not, under any circumstances, have a significant effect on the Entity's 2018 annual accounts.

At the end of the year, no other legal proceedings or significant claims were in progress against the Entity arising from the ordinary course of its business.

p) Commissions

The Bank classifies the fees it charges or pays into the following categories:

Financial commissions

Such fees, which are an integral part of the effective yield or cost of a financial transaction and are collected or paid in advance, are generally recognised in the income statement over the expected life of the financing, net of the related direct costs, as an adjustment to the effective cost or yield of the transaction.

Non-financial commissions

This type of commission arises for the provision of services and is recorded in the profit and loss account throughout the period during which the service is provided, or, in the case of a service that is provided in a single act, at the time the single act is performed.

q) Corporate income tax

The corporate income tax expense for the year is calculated on the basis of the economic outturn, before taxes, increased or decreased, as appropriate, by the permanent differences from the taxable income, which are understood to be the differences between the taxable income and the accounting profit before taxes that do not reverse in subsequent periods.

The corporate income tax expense is recognised in the income statement, except when the transaction is recognised directly in equity, in which case the related tax is also recognised with a balancing entry in equity.

The tax effect of temporary differences is included, where applicable, under the related "Tax Assets - Deferred" and "Tax Liabilities - Deferred" captions in the accompanying balance sheet.

Deferred tax assets and liabilities are quantified by applying to the appropriate temporary difference or credit the tax rate at which they are expected to be recovered or settled.

At least at year-end the recorded deferred tax assets are reviewed and the appropriate valuation adjustments are made if they are not recoverable.

r) Deposit Guarantee Fund - National Resolution Fund

The Bank is part of the Deposit Guarantee Fund of Credit Institutions.

The Management Committee of the Deposit Guarantee Fund of Credit Institutions, at its meeting held on 2 December 2015, under the provisions of article 3.2 of Royal Decree 2606/1996, of 20 December, on credit institution deposit guarantee funds, modified by Royal Decree 1012/2015, of 6 November, determined that for 2015 the annual contribution to the deposit guarantee sub-fund was 1.6 per thousand and the annual contribution to the securities guarantee sub-fund was 2 per thousand, both based on the calculation of the contributions existing at 31 December 2015.

Likewise, the Management Committee of the Deposit Guarantee Fund for Credit Institutions, at its meeting on 15 July 2016, set for fiscal year 2016 at 1.6 per thousand the contribution corresponding to the guaranteed deposits sub-fund, adjusting the contribution of each institution according to its risk profile on the basis of the deposits existing as of 30 June 2016.

In 2018, the ordinary contribution to this body was set at EUR 3 thousand (2017: EUR 2 thousand).

On the other hand, Law 11/2015 of 18 June, together with its regulatory development through Royal Decree 1012/2015 of 6 November, which transposes Directive 2014/59/EU of 15 May into Spanish law, establishes a new framework for the resolution of credit institutions and investment service companies. This law regulates the creation of the National Resolution Fund, whose financial resources must reach 1% of the amount of guaranteed deposits by 31 December 2024, through contributions from credit institutions and investment service companies established in Spain.

The calculation of the contribution of each institution starts from the proportion that each one of them represents of the aggregate total of the following concept: total liabilities of the institution, excluding own resources and the guaranteed amount of deposits, which subsequently adjusts to the risk profile of each institution. In accordance with the foregoing, the contribution for 2018 corresponding to the Entity was 154 thousand euros (2017: 68 thousand euros).

(s) Cash flow statement

The following expressions are used in the cash flow statement in the following senses:

- Cash flows: inflows and outflows of cash and cash equivalents, i.e. short-term investments with high liquidity and low risk of changes in value.

- Operating activities: typical activities of credit institutions, as well as other activities that cannot be classified as investment or financing.

- Investment activities: the acquisition, disposal or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.

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

t) Statement of changes in equity.

The statement of changes in equity shows the total changes in equity during the year. This information is broken down into two states:

- Statements of total income and expenses: presents the income and expenses generated as a consequence of the Entity's activity during the year, distinguishing those recorded as results in the profit and loss account for the year and the income and expenses recorded, in accordance with the provisions of current legislation, directly in net worth.

- Total statement of changes in equity: presents all changes in equity accounts, including those arising from changes in accounting policies and corrections of errors. This statement therefore shows a reconciliation of the carrying amount at the beginning and end of the period for all items in equity, grouping the changes according to their nature.

u) Transition to Circular 4/2017 and opening balance sheet at 1 January 2018

As mentioned in Note 2.a, Circular 4/2017 came into force on January 1, replacing Circular 4/2004 on the classification and valuation of financial assets and liabilities, impairment of financial assets and hedge accounting, which had a significant impact on the Bank's financial statements at that date.

The effects of the first application of Circular 4/2017 are presented below:

ASSETS	(Thousands of euros)			
	Circular 4/2004	**Classification of financial instruments**	**Deterioration**	**Opening Balance 01.01.2018 Circular 4/2017 (*)**
Cash, balances with central banks and other demand deposits	106.039	-	-	106.039
Financial assets not held for trading mandatorily measured at fair value through profit or loss	-	284	-	284
Available-for-sale financial assets	284	(284)	-	-
Financial assets at amortised cost	428.792	116.866	(744)	544.914
Held-to-maturity investments	116.866	(116.866)	-	-
Investments in joint ventures and associates	1.063	-	-	1.063
Tangible assets	2.478	-	-	2.478
Intangible assets	-	-	-	-
Tax assets	6	-	-	6
Other assets	220	-	-	220
TOTAL ASSETS	**655.748**	**-**	**(744)**	**655.004**

The differences recognised under "Available-for-Sale Financial Assets" are due mainly to the classification under "Financial Assets at Fair Value through Other Comprehensive Income".

LIABILITIES AND SHAREHOLDERS' EQUITY	(Thousands of euros) Circular 4/2004	Classification of financial instruments	Deterioration	Opening Balance 01.01.2018 Circular 4/2017 (*)
Financial liabilities at amortised cost	581.585	-	-	581.585
Provisions	542		90	632
Tax liabilities	381	-	-	381
Other liabilities	210	-	-	210
TOTAL LIABILITIES	**582.718**	**-**	**90**	**582.808**
OWN FUNDS				
Capital	40.635	-	-	40.635
Share premium	3.198	-	-	3.198
Other reserves	23.838	-	(834)	23.004
Less: Treasury stock	-			
Profit attributable to the owners of the parent company	5.359	-	-	5.359
OTHER ACCUMULATED COMPREHENSIVE INCOME	-	-	-	-
TOTAL EQUITY	**73.030**	**-**	**(834)**	**72.196**

4. ERRORS AND CHANGES IN ACCOUNTING ESTIMATES

During 2018 and up to the date of preparation of the annual accounts there have been no errors or changes in accounting estimates which, due to their relative importance, should be included in the annual accounts.

5. DISTRIBUTION OF RESULTS

Included below is the distribution of 2018 profit that the Bank's Board of Directors will propose to the Sole Shareholder for approval, together with the distribution approved by the Sole Shareholder of the 2017 result:

	Thousands of Euros 2018	Thousands of Euros 2017
Profit for the year after corporate income tax	7.902	5.359
Total distributable	7.902	5.359
To legal reserve	790	536
To voluntary reserve	2.112	4.582
A distribution of dividends	5.000	241
Total distributed	7.902	5.359

6. RISKS OF FINANCIAL INSTRUMENTS. CAPITAL MANAGEMENT

6.1 RISKS OF FINANCIAL INSTRUMENTS.

In its day-to-day operations, the Bank participates in the development of trade and investment exchanges between Spain and Morocco and, by extension, Europe and other Arab countries, providing financing and management services. Its main products and services can be summarised as the post-financing of documentary credits and forfaiting, buyer credit and the granting of credit lines for investment or operating projects.

In accordance with its corporate purpose, the Bank maintains a very conservative lending policy supported by credit analysis and rating tools. The Bank's Credit Committee, on the basis of both internal and external reports, approves or denies operations, taking as a measure the request for guarantees to support the operations of small and medium enterprises.

a) Credit risk

Credit risk arises from the possible loss caused by the failure of the Bank's counterparties to meet their contractual obligations. In the case of reimbursable financing granted to third parties (in the form of credits, loans, deposits, securities and others), it arises as a result of the non-recovery of principal, interest and other items in the terms of the amount, term and other conditions established in the contracts. In the case of off-balance-sheet risks, it arises from the counterparty's failure to meet its obligations to third parties, which requires the Bank to assume them as its own by virtue of the commitment entered into.

a.1) Credit risk management and measurement

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

a.2) Follow-up

Risks are monitored daily by the Treasury Committee, where defaults are reported, and monthly by the Credit Monitoring Committee, created to monitor credit risk exhaustively.

The Bank has a risk unit that monitors the solvency of the "Loans and advances" portfolio and commitments in general.

a.3) Recovery

The Bank has the external services of a law firm for the follow-up and recovery of debts in arrears.

a.4) Total credit risk exposure

The following table shows the total exposure to credit risk at the close of fiscal years 2018 and 2017:

	Thousands of Euros	
	2018	2017
Demand deposits at credit institutions (Note 7)	21.993	26.937
Debt instruments (Note 10)	153.177	116.866
Loans and advances - Credit institutions (Note 9)	309.227	284.273
Loans and advances to customers (Note 9)	152.818	144.519
Other commitments granted (Note 18)	43.505	75.615
Total risk	680.720	648.210
Loan commitments granted (Note 22)	27.935	39.417
Maximum exposure	708.655	687.627

The distribution of risk by geographical area according to the location of customers is as follows:

	Thousands of Euros	
	2018	2017
Europe	393.684	341.145
Africa	244.147	243.176
North America	14.757	29.981
South America	4.632	5.362
Asia	51.435	67.963
Total risk	708.655	687.627

In the exposures with Africa that appear in the previous table, the majority correspond to Morocco, and within this country those assumed with the parent company. Risk transactions with the parent company are secured by deposits recorded on the Bank's liability side (see Note 21).

The distribution of the risk of loans and advances to customers according to the sector of activity at 31 December 2018 and 2017 to which the customers belong is shown in the following table:

	Thousands of Euros					
	2018			2017		
	Risk	Distribution (%)	*Of which: Doubtful assets*	Risk	Distribution (%)	*Of which: Doubtful assets*
Industry	73.978	48,41	*3.561*	59.396	41,10	-
Construction	8.891	5,81	-	11.245	7,78	-
Services						
Trade and hospitality	32.682	21,39	*3*	23.396	16,19	-
Transport and communications	4.274	2,80	-	5.214	3,61	-
Other services	32.945	21,56	*7.315*	45.219	31,29	*5.320*
Credit to individuals:						
Consumption and others	48	0,03	-	49	0,03	-
Loans and advances to customers	152.818	100,00	*10.879*	144.519	100,00	*5.320*

As can be seen from the table above, as of December 31, 2018 and 2017, the Bank has not granted any significant loans or credits to finance consumer transactions.

The breakdown of risk by total amount per customer in 2018 and 2017 is as follows:

	Thousands of Euros					
	2018			2017		
	Risk	Distribution (%)	*Of which: Doubtful assets*	Risk	Distribution (%)	*Of which: Doubtful assets*
More than 1,000	137.334	89,87	*6.085*	127.945	88,53	*4.264*
Between 500 and 1,000	9.999	6,54	-	9.271	6,42	*557*
Between 250 and 500	3.868	2,53	*4.295*	3.923	2,71	*499*
Between 125 and 250	1.066	0,70	*496*	3.146	2,18	-
Between 50 and 125	432	0,28	-	116	0,08	-
Between 25 and 50	73	0,05	-	43	0,03	-
Less than 25	46	0,03	*3*	75	0,05	-
Loans and advances - Clientele	152.818	100,00	*10.879*	144.519	100,00	*5.320*

Loans and Advances - Credit Institutions includes the deposits lent, credits, loans and documentary credits used, totalling EUR 309,227 thousand at 31 December 2018 (2017: EUR 284,273 thousand).

The "Debt Instruments" caption relates to debt instruments, details of which are included in Note 10.

Following is a detail, for each class of financial instruments, of the maximum amount of credit risk covered by each of the main collateral and other credit enhancements available to the Entity at December 31, 2018 and 2017:

	Thousands of Euros						
Financial year 2018	Real estate guarantee	Other security interests	Guaranteed by Group companies	Guaranteed by financial institutions	Guarantee d by other entities	No Warranty	Total
Demand deposits with credit institutions	-	-	-	-	-	21.993	21.993
Debt instruments	-	-	-	-	-	153.177	153.177
Loans and advances - Credit institutions	-	33.239	-	-	-	275.988	309.227
Loans and advances - Clientele	-	3.857	22.786	33.621	30.820	61.734	152.818
Other commitments granted	-	9.216	-	2.057	-	32.232	43.505
Total risk	-	46.312	22.786	35.678	30.820	545.124	680.720
Loan commitments granted	-	-	-	-	-	27.935	27.935
Maximum exposure	-	46.312	22.786	35.678	30.820	573.059	708.655

	Thousands of Euros						
Financial year 2017	Real estate guarantee	Other security interests	Guaranteed by Group companies	Guaranteed by financial institutions	Guarantee d by other entities	No Warranty	Total
Demand deposits with credit institutions	-	-	-	-	-	26.937	26.937
Debt instruments	-	-	-	-	-	116.866	116.866
Loans and advances - Credit institutions	-	-	-	-	-	284.273	284.273
Loans and advances - Clientele	-	-	34.462	20.822	50.170	39.065	144.519
Other commitments 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
Loan commitments granted	-	-	-	-	-	39.417	39.417
Maximum exposure	-	1.982	36.012	29.394	50.170	570.069	687.627

The detail of the instruments subject to credit risk, in accordance with ratings granted with external rating agencies, is as follows:

	Thousands of Euros					
Financial year 2018	Rating 1	Rating 2	Rating 3	Rating 4	Not rated by agency	Total
Demand deposits with credit institutions	21.993	-	-	-	-	21.993
Debt instruments	61.464	91.713	-	-	-	153.177
Loans and advances - Credit institutions	179.139	64.898	30.536	-	34.654	309.227
Loans and advances - Clientele	37.845	31.037	66.644	-	17.292	152.818
Other commitments granted	9.989	7.130	13.390	565	12.431	43.505
Total risk	310.430	194.778	110.570	565	64.377	680.720
Loan commitments granted	27.929	6	-	-	-	27.935
Maximum exposure	338.359	194.784	110.570	565	64.377	708.655

	Thousands of Euros					
Financial year 2017	Rating 1	Rating 2	Rating 3	Rating 4	Not rated by agency	Total
Demand deposits with credit institutions	26.937	-	-	-	-	26.937
Debt instruments	116.866	-	-	-	-	116.866
Loans and advances - Credit institutions	134.124	77.264	27.246	-	45.639	284.273
Loans and advances - Clientele	7.511	58.908	44.907	-	33.193	144.519
Other commitments granted	2.976	25.530	14.834	-	32.275	75.615
Total risk	288.414	161.702	86.987	-	111.107	648.210
Loan commitments granted	-	39.417	-	-	-	39.417
Maximum exposure	288.414	201.119	86.987	-	111.107	687.627

In relation to the information contained in the above tables, each of the categories shown is described below, all of them corresponding to the external rating of the International Agency 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: less than B-
- Unclassified: without a note from an external rating agency.

The detail of the instruments subject to credit risk, in accordance with the internal ratings used by the Entity, is as follows:

	Thousands of Euros					
Financial year 2018	Rating A	Rating B	Rating C	Rating D	Unqualified	Total
Demand deposits with credit institutions	21.993	-	-	-	-	21.993
Debt instruments	61.464	91.713	-	-	-	153.177
Loans and advances - Credit institutions	179.139	64.898	30.536	-	34.654	309.227
Loans and advances - Clientele	37.845	31.037	66.644	-	17.292	152.818
Other commitments granted	9.989	7.130	13.390	565	12.431	43.505
Total risk	310.430	194.778	110.570	565	64.377	680.720
Loan commitments granted	27.929	6	-	-	-	27.935
Maximum exposure	338.359	194.784	110.570	565	64.377	708.655

	Thousands of Euros					
Financial year 2017	Rating A	Rating B	Rating C	Rating D	Unqualified	Total
Demand deposits with credit institutions	26.937	-	-	-	-	26.937
Debt instruments	116.866	-	-	-	-	116.866
Loans and advances - Credit institutions	134.124	77.264	27.246	-	45.639	284.273
Loans and advances - Clientele	7.511	58.908	44.907	-	33.193	144.519
Other commitments granted	2.976	25.530	14.834	-	32.275	75.615
Total risk	288.414	161.702	86.987	-	111.107	648.210
Loan commitments granted	-	39.417	-	-	-	39.417
Maximum exposure	288.414	201.119	86.987	-	111.107	687.627

In relation to the information contained in the above tables, each of the categories shown is described below:

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

The following table shows the distribution of loans and advances to customers by type of activity at 31 December 2018 and 2017:

	Thousands of Euros							
				Secured loans. Loan to value (c)				
	Total	Of which: Real estate guarantee (b)	Of which: Other collateral (b)	Not exceeding 40	Exceeding 40 % but not exceeding 60	Exceeding 60% and less than or equal to 80%.	Exceeding 80% and less than or equal to 100%.	More than 100%.
Financial year 2018								
Public Administrations	29.077	-	-	-	-	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)								
Construction and development of real estate (including land) (d)	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-
Other purposes								
Large enterprises (e)	121.652	-	-	-	-	-	-	-
SMEs and sole proprietors (e)	2.038	-	-	-	-	-	-	-
Other households (f) (broken down by purpose) (g)	-							
Dwellings	-	-	-	-	-	-	-	-
Consumption	51	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
TOTAL	152.818	-		-	-	-	-	-
MEMORY PRO								
Refinancing, refinancing and restructuring operations	*11.409*	-	-	-	-	-	-	-
Financial year 2017								
Public Administrations	41.907	-	-	-	-	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)								
Construction and development of real estate (including land) (d)	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-
Other purposes								
Large enterprises (e)	73.881	-	-	-	-	-	-	-
SMEs and sole proprietors (e)	28.691	-	-	-	-	-	-	-
Other households (f) (broken down by purpose) (g)								
Dwellings	-	-	-	-	-	-	-	-
Consumption	40	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
TOTAL	144.519	-		-	-	-	-	-
MEMORY PRO								
Refinancing, refinancing and restructuring operations	*9.002*	-	-	-	-	-	-	-

(a) The definition of loans and advances to customers is the one used in drawing up the balance sheet. This table includes all transactions of this nature, irrespective of the item in which they are included in the balance sheet, except for the item 'Non-current assets and disposal groups of items classified as held for sale'. The amount reflected for the different data is the carrying amount of the transactions, i.e. after deducting the value adjustments made for the hedging of the transactions.

(b) It includes the book value of all operations with real estate guarantee or with other real guarantees whatever their loan to value and instrumentation (mortgage, financial lease, reverse repurchase loan, etc.).

(c) The *loan to value* is the ratio that results from dividing the book value of each transaction at the date of the statement by the amount of the last available appraisal or valuation of your collateral.

(d) This item includes all activities relating to the construction and development of real estate, including that relating to the financing of land for real estate development, irrespective of the counterparty's sector and principal economic activity.

(e) Non-financial corporations are classified under "Large enterprises" and "SMEs" according to the definitions in Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises. The activity carried out by natural persons in the exercise of their business activities is considered to be the activity of individual entrepreneurs.

(f) Households, including non-profit institutions serving households, but excluding the business activity of sole proprietors.

(g) Loans are classified according to their purpose according to the criteria included in standard 71ª.2.e) of Circular 4/2017.

The following tables show the risk concentration by activity and geographical area in Spain at 31 December 2018 and 2017:

					Thousands of Euros
Financial year 2018	TOTAL [(a)]	Spain	Rest of the European Union	America	Rest of the world
Central banks and credit institutions	362.479	78.019	105.498	10.617	168.345
Public Administrations					
Central Administration	139.682	18.610	79.107	8.773	33.191
Other Public Administrations	23.314	11.663	0	0	11.652
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)					
Construction and real estate development (including land)	-	-	-	-	-
Construction of civil works	-	-	-	-	-
Other purposes					
Large Enterprises	151.804	60.328	7.475	0	84.000
SMEs and sole proprietors	4.527	1.812	29	0	2.687
Other households (broken down by purpose)					
Dwellings	-	-	-	-	-
Consumption	52	52	-	-	-
Other	-	-	-	-	-
TOTAL	681.858	170.484	192.109	19.390	299.875

		Thousands of Euros								
		AUTONOMOUS COMMUNITIES								
Financial year 2018	TOTAL [(a)]	Andalusia	Aragon	Asturias	Balearic	Canary	Cantabria	Castile-La Mancha	Castilla y León	Catalonia
Central banks and credit institutions	76.897	-	-	-	-	-	-	-	-	-
Public Administrations										
Central Administration	18.610	-	-	-	-	-	-	-	-	-
Other Public Administrations	11.663	-	-	-	-	-	-	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)										
Construction and real estate development (including land)	-	-	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-	-	-
Other purposes										
Large Enterprises	60.328	1.338	-	474	-	-	2.568	200	-	323
SMEs and sole proprietors	1.812	144	-	-	-	-	-	-	57	-
Other households (broken down by purpose)										
Dwellings	-	-	-	-	-	-	-	-	-	-
Consumption	52	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Exchange rate										
TOTAL	170.484	1.482	-	474	-	-	2.568	200	57	323

	Thousands of Euros								
	AUTONOMOUS COMMUNITIES								
Financial year 2018	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencian Community	Basque Country	La Rioja	Ceuta and Melilla
Central banks and credit institutions	-	-	43.046	-	-	34.973	-	-	-
Public Administrations									
Central Administration	-	-	18.610	-	-	-	-	-	-
Other Public Administrations	-	-	5.543	-	-	2.112	4.007	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)									
Construction and real estate development (including land)	-	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-	-
Other purposes									
Large Enterprises	485	342	53.979	619	-	-	-	-	-
SMEs and sole proprietors	-	-	1.286	144	-	180	-	-	-
Other households (broken down by purpose)									
Dwellings	-	-	-	-	-	-	-	-	-
Consumption	-	-	52	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
TOTAL	485	342	123.638	764	-	37.266	4.007	-	-

(a) The definition of risk for the purposes of this table includes loans and advances, debt instruments, equity instruments, derivatives (held for trading and hedging), investments in subsidiaries, joint ventures and associates and guarantees granted, regardless of the item in which they are included in the balance sheet, except for the item "Non-current assets and disposal groups of items classified as held for sale". The amount reflected for assets is the carrying amount of the transactions, i.e. after deducting the value adjustments made to hedge the transactions. The amount of guarantees granted is the nominal value. The distribution of activity by geographical area is based on the country or autonomous community of residence of the borrowers, issuers of the securities and counterparties of the derivatives and guarantees granted.

Financial year 2017	Thousands of Euros TOTAL [(a)]	Spain	Rest of the European Union	America	Rest of the world
Central banks and credit institutions	388.982	22.445	120.349	35.343	210.845
Public Administrations					
Central Administration	97.749	18.584	50.385	-	28.780
Other Public Administrations	20.846	7.718	-	-	13.128
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)					
Construction and real estate development (including land)	-	-	-	-	-
Construction of civil works	-	-	-	-	-
Other purposes					
Large Enterprises	110.561	63.707	15.961	-	30.893
SMEs and sole proprietors	31.381	3.833	54	-	27.494
Other households (broken down by purpose)					
Dwellings	-	-	-	-	-
Consumption	38	38	-	-	-
Other	-	-	-	-	-
TOTAL	649.557	116.325	186.749	35.343	311.140

Financial year 2017	Thousands of Euros TOTAL [(a)]	AUTONOMOUS COMMUNITIES Andalusia	Aragon	Asturias	Balearic	Canary	Cantabria	Castile-La Mancha	Castilla y León	Catalonia
Central banks and credit institutions	20.856	-	-	-	-	-	-	-	-	-
Public Administrations										
Central Administration	18.584	-	-	-	-	-	-	-	-	-
Other Public Administrations	7.718	-	-	-	-	-	-	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)										
Construction and real estate development (including land)	-	-	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-	-	-
Other purposes										
Large Enterprises	63.707	2.702	-	-	-	-	-	-	3.305	3.561
SMEs and sole proprietors	3.833	1.772	-	-	-	-	-	61	-	58
Other households (broken down by purpose)										
Dwellings	-	-	-	-	-	-	-	-	-	-
Consumption	38	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
TOTAL	116.325	4.474	-	-	-	-	-	61	3.305	3.619

Financial year 2017	Thousands of Euros AUTONOMOUS COMMUNITIES Extremadura	Galicia	Madrid	Murcia	Navarre	Valencian Community	Basque Country	La Rioja	Ceuta and Melilla
Central banks and credit institutions	-	-	20.856	-	-	-	-	-	-
Public Administrations									
Central Administration	-	-	18.584	-	-	-	-	-	-
Other Public Administrations	-	-	3.512	2.046	-	2.160	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)									
Construction and real estate development (including land)	-	-	-	-	-	-	-	-	-
Construction of civil works	-	-	-	-	-	-	-	-	-
Other purposes									
Large Enterprises	481	343	47.641	5.674	-	-	-	-	-
SMEs and sole proprietors	236	157	1.376	-	-	173	-	-	-
Other households (broken down by purpose)									
Dwellings	-	-	-	-	-	-	-	-	-
Consumption	-	-	38	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
TOTAL	717	500	93.597	7.720	-	2.333	-	-	-

(a) The definition of risk for the purposes of this table includes loans and advances, debt instruments, equity instruments, derivatives (held for trading and hedging), investments in subsidiaries, joint ventures and associates and guarantees granted, regardless of the item in which they are included in the balance sheet, except for the item "Non-current assets and disposal groups of items classified as held for sale". The amount reflected for assets is the carrying amount of the transactions, i.e. after deducting the value adjustments made to hedge the transactions. The amount of guarantees granted is the nominal value. The distribution of activity by geographical area is based on the country or autonomous community of residence of the borrowers, issuers of the securities and counterparties of the derivatives and guarantees granted.

a.5) Credit risk for financing construction and real estate development

As of December 31, 2018 and 2017, the Entity did not have credit investment operations to finance construction and real estate development activities.

As of December 31, 2018 and 2017, the Bank did not have credit granted for the acquisition of housing.

As of December 31, 2018 and 2017, the Bank did not have any foreclosed assets arising from financing for construction and real estate development companies.

a.6) Refinancing policy and restructuring of loans and credits.

In accordance with Bank of Spain Circular 4/2017, the Bank uses the following definitions:

- Refinancing operation: an operation which, whatever its holder or guarantees, is granted or used for economic or legal reasons related to financial difficulties of the holder to cancel one or more operations granted, by the entity itself or by other entities of its group, to the holder or to one or more other companies of its economic group, or by which such operations are brought fully or partially up to date with payments, in order to make it easier for the holders of the cancelled or refinanced operations to pay their debt (principal and interest) because they cannot, or it is expected that they will not be able to comply in due time and form with its conditions.

- Refinancing operation: an operation that brings all or part of the payment current as a result of a refinancing operation carried out by the entity itself or by another entity in its economic group.

- Restructured operation: operation in which, for economic or legal reasons related to the financial difficulties of the holder, its financial conditions are modified in order to facilitate the payment of the debt (principal and interest) because the holder cannot, or is not expected to be able to comply in due time and form with those conditions, even when the modification is foreseen in the contract. In any case, operations in which assets are removed or received to reduce debt, or in which conditions are modified to extend their maturity, modify the amortization table to reduce the amount of the installments in the short term or reduce their frequency, are considered to be restructured, or establish or extend the grace period for principal, interest or both, except where it can be proved that the conditions are modified for reasons other than the financial difficulties of the holders and are analogous to those applied in the market on the date of their modification to transactions granted to clients with a similar risk profile.

- Renewal operation: an operation formalized to replace another previously granted by the entity itself, without the borrower having, or being expected to have in the future, financial difficulties; in other words, the operation is formalized for reasons other than refinancing.

- Renegotiated operation: an operation in which the borrower's financial conditions are modified without the borrower having, or being expected to have in the future, financial difficulties, i.e. when the conditions are modified for reasons other than restructuring.

In any case, in order to qualify an operation as a renewal or renegotiated operation, the holders must have the capacity to obtain in the market, on the date of the renewal or renegotiation, operations for an amount and with financial conditions similar to those applied by the entity, and these must be adjusted to those granted on that date to clients with a similar risk profile.

The procedure followed by the Bank in refinancing and restructuring operations is summarised below:

1. All the financial and economic information of the company is obtained. In addition, they are required to update their balance sheet and income statement.

2. The financial/economic information is submitted to the credit committee, which will discuss and give its opinion on the viability of the company, for which an additional medium-term business plan is required. The credit committee has to be approved by all of its permanent members.

3. The credit committee must be certain that the company's financial problem is temporary, due to excess debt or non-renewal of lines due to bank mergers. Therefore, the Bank ensures that the company has adequate commercial viability.

4. Once approved by the credit committee, we must sign a new policy or adhere to the rest of the banks that will sign the syndicate of credits or loans provided to said company.

As of December 31, 2018 and 2017, refinancing and restructuring were as follows:

	Total		
	Number of operations	Gross carrying amount (thousands of euros)	Accumulated impairment or accumulated losses in fair value due to credit risk
2018			
Credit institutions	-	-	-
Public Administrations	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)	10	11.409	-
Of which: construction financing and real estate development (including land)	-	-	-
Rest of households	-	-	-
Total	10	11.409	-
Additional information:			
Financing classified as non-current assets and disposable assets have been classified as held for sale.	-	-	-
2017			
Credit institutions	-	-	-
Public Administrations	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)	8	9.002	-
Of which: construction financing and real estate development (including land)	-	-	-
Rest of households	-	-	-
Total	8	9.002	-
Additional information:			
Financing classified as non-current assets and disposable assets have been classified as held for sale.	-	-	-

	Normal						
	Unsecured		With real guarantee				Accumulated impairment losses (thousands of euros)
					Maximum amount of collateral that can be considered (thousands of euros)		
	Number of operations	Gross carrying amount (thousands of euros)	Number of operations	Gross carrying amount (thousands of euros)	Real estate guarantee	Other collateral	
2018							
Credit institutions	-	-	-	-	-	-	-
Public Administrations	-	-	-	-	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)	4	533	-	-	-	-	-
Of which: construction financing and real estate development (including land)	-	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-	-
Total	4	533	-	-	-	-	-
Additional information:							
Financing classified as non-current assets and disposable assets have been classified as held for sale.	-	-	-	-	-	-	-
2017							
Credit institutions	-	-	-	-	-	-	-
Public Administrations	-	-	-	-	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)	5	2.812	-	-	-	-	-
Of which: construction financing and real estate development (including land)	-	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-	-
Total	5	2.812	-	-	-	-	-
Additional information:							
Financing classified as non-current assets and disposable assets have been classified as held for sale.	-	-	-	-	-	-	-

	In special surveillance						
	Unsecured		With real guarantee				Accumulated impairment losses (thousands of euros)
					Maximum amount of collateral that can be considered (thousands of euros)		
	Number of operations	Gross carrying amount (thousands of euros)	Number of operations	Gross carrying amount (thousands of euros)	Real estate guarantee	Other collateral	
2018							
Credit institutions	-	-	-	-	-	-	-
Public Administrations	-	-	-	-	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)	-	-	-	-	-	-	-
Of which: construction financing and real estate development (including land)	-	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-
Additional information:							
Financing classified as non-current assets and disposable assets have been classified as held for sale.	-	-	-	-	-	-	-
2017							
Credit institutions	-	-	-	-	-	-	-
Public Administrations	-	-	-	-	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)	3	6.005	-	-	-	-	-
Of which: construction financing and real estate development (including land)	-	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-	-
Total	3	6.005	-	-	-	-	-
Additional information:							
Financing classified as non-current assets and disposable assets have been classified as held for sale.	-	-	-	-	-	-	-

	Doubtful						
	Unsecured		With real guarantee				Accumulated impairment or accumulated losses in fair value due to credit risk (thousands of euros)
					Maximum amount of collateral that can be considered (thousands of euros)		
	Number of operations	Gross carrying amount (thousands of euros)	Number of operations	Gross carrying amount (thousands of euros)	Real estate guarantee	Other collateral	
2018							
Credit institutions							
Public Administrations	-	-	-	-	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)	7	10.879	-	-	-	-	-
Of which: construction financing and real estate development (including land)	-	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-
Additional information:							
Financing classified as non-current assets and disposable assets have been classified as held for sale.	-	-	-	-	-	-	-
2017							
Credit institutions	-	-	-	-	-	-	-
Public Administrations	-	-	-	-	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)	5	8.320	-	-	-	-	-
Of which: construction financing and real estate development (including land)	-	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-	-
Total	5	8.320	-	-	-	-	-
Additional information:							
Financing classified as non-current assets and disposable assets have been classified as held for sale.	-	-	-	-	-	-	-

The detail at 31 December 2018 and 2017 of the amount of transactions classified as doubtful at 31 December 2018 and 2017 following refinancing or restructuring is as follows:

	Full real estate mortgage guarantee		Other collateral		Unsecured	
	No. of operations	Gross amount (thousands of euros)	No. of transactions	Gross amount (thousands of euros)	No. of transactions	Gross amount (thousands of euros)
2018						
Credit institutions	-	-	-	-	-	-
Public Administrations	-	-	-	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)	1	2.524	-	-	-	-
Of which: construction financing and real estate development (including land)	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-
Total	1	2.524	-	-	-	-
2017						
Credit institutions	-	-	-	-	-	-
Public Administrations	-	-	-	-	-	-
Other financial corporations and sole proprietors (financial business activity)	-	-	-	-	-	-
Non-financial corporations and sole proprietors (non-financial business activity)	-	-	-	-	-	-
Of which: construction financing and real estate development (including land)	-	-	-	-	-	-
Rest of households	-	-	-	-	-	-
Total	-	-	-	-	-	-

b) Market risk

This risk includes risks arising from possible adverse changes in interest rates on assets and liabilities, in the exchange rates at which the assets and liabilities or off-balance sheet are denominated, and in the market prices of negotiable financial instruments.

Except as indicated in Note 8, at 31 December 2018 and 2017 there were no significant equity instruments or financial instruments traded in active markets that had become relatively illiquid.

b.1) Interest rate risk

This risk refers to the impact that changes in the general level of interest rates may have on the profit and loss account (income and expense generation flows) or on equity value. This is caused by delays in the maturity or repricing dates of the masses of assets and liabilities that produce a different response to changes in interest rates.

Except for debt securities included in the "Financial assets at amortised cost - debt securities" portfolio, all other financial instruments with fixed interest rates generally mature in less than one year. Financial instruments with variable rates have renewal periods of less than 12 months. Therefore, the Bank considers that, except for the portfolio of "Financial assets at amortised cost - debt securities", it does not have a significant exposure to this type of risk.

The average rates of the closing balances for 2018 and 2017 are as follows:

	2018		2017	
Assets	Thousands of Euros	Interest rate medium	Thousands of Euros	Interest rate medium
Cash, balances with central banks and other demand deposits	165.674		106.039	
- other	165.674	0,05%	106.039	0,05%
Financial assets at amortised cost - debt securities	153.177	3,77%	116.866	4,04%
Loans and advances - Credit institutions	309.227		284.273	
- for documentary credit transactions used	28.507	-	35.507	-
- other	280.720	3,15%	248.766	2,79%
Loans and advances - Clientele	152.818	2,75%	144.519	2,71%
Total	780.896		651.697	
Liabilities				
Financial liabilities at amortised cost - Deposits Central banks	12.000	-	12.500	-
Financial liabilities at amortised cost - Deposits Credit institutions	648.055	0,21%	494.459	0,11%
Financial liabilities at amortised cost - Deposits Clientele	14.802	0,09%	17.607	0,15%
Other financial liabilities	28.815	-	57.019	-
Total	703.672		581.585	

The Bank mainly carries out interest rate transactions with reference currencies of the euro and US dollar.

b.2) Exchange rate risk

The following table summarizes the Bank's exposure to foreign exchange risk:

	Thousands of Euros			
Financial year 2018	EUR	USD	Other	Total
Assets				
Cash, balances with central banks and other demand deposits	150.981	12.688	2.005	165.674
Financial assets not held for trading mandatorily measured at fair value through profit or loss	75	-	-	75
Debt instruments	109.109	44.068	-	153.177
Loans and advances - Credit institutions	47.322	258.550	3.355	309.227
Loans and advances - Clientele	99.766	53.047	5	152.818
Investments in joint ventures and associates - Associates	1.063	-	-	1.063
Tangible assets - Tangible fixed assets	2.498	-	-	2.498
Tax assets - Current tax assets	278	-	-	278
Other assets - Other assets	333	-13	-125	195
Total	411.425	368.340	5.240	785.005
Liabilities				
Financial liabilities at amortised cost - Deposits from central banks	12.000	-	-	12.000
Financial liabilities at amortised cost - Deposits from credit institutions	281.275	361.928	4.852	648.055
Financial liabilities at amortised cost - Customer deposits	13.949	470	383	14.802
Financial liabilities at amortised cost - Other financial liabilities	22.876	5.939	-	28.815
Provisions - Commitments and guarantees granted	1.201	-	-	1.201
Tax liabilities - Current tax liabilities	-	-	-	-
Other liabilities	417	3	4	424
Total	331.718	368.340	5.239	705.297
Net position by currency of the balance sheet	79.707	-	1	79.748

	Thousands of Euros			
Financial year 2017	EUR	USD	Other	Total
Assets				
Cash, balances with central banks and other demand deposits	80.959	20.378	4.702	106.039
Financial assets at fair value with changes in other comprehensive income - Equity instruments	284	-	-	284
Debt instruments	99.987	16.879	-	116.866
Loans and advances - Credit institutions	74.239	210.034	-	284.273
Loans and advances - Clientele	84.235	60.280	4	144.519
Investments in joint ventures and associates - Associates	1.063	-	-	1.063
Tangible assets - Tangible fixed assets	2.478	-	-	2.478
Tax assets - Current tax assets	6	-	-	6
Other assets - Other assets	165	8	47	220
Total	343.416	307.579	4.753	655.748
Liabilities				
Financial liabilities at amortised cost - Deposits from central banks	12.500	-	-	12.500
Financial liabilities at amortised cost - Deposits from credit institutions	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	270.905	307.653	4.160	582.718
Net position by currency of the balance sheet	72.511	(74)	593	73.030

The amount of exchange gains recognised in the income statement in 2018 amounted to EUR 737 thousand (2017: EUR 724 thousand).

(c) Liquidity risk

This risk reflects a credit institution's potential difficulty in obtaining sufficient liquid funds, or having access to them, at an appropriate amount and cost, to meet its payment obligations at all times. Although the Bank has sufficient lines of credit, this risk is monitored on a daily basis by its Treasury Committee.

The breakdown of financial instruments by residual maturity at 31 December 2018 and 2017 is as follows. The maturity dates considered for the construction of the attached table are the expected maturity or cancellation dates obtained based on the Entity's historical experience:

	Thousands of Euros								
Financial year 2018	At a glance	Up to 1 month	Between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	More than 5 years	Unspecified and unclassified maturity	Total
Assets									
Cash, balances with central banks and other demand deposits	165.674	-	-	-	-	-	-	-	165.674
Financial assets not held for trading mandatorily measured at fair value through profit or loss	75	-	-	-	-	-	-	-	75
Loans and advances - Credit institutions	15	148.604	50.361	53.062	57.185	-	-	-	309.227
Loans and advances - Clientele	-	4.458	12.509	86.302	25.010	23.622	917	-	152.818
Financial assets at amortised cost - Debt instruments	-	-	-	-	-	52.205	100.972	-	153.177
Total	165.764	153.062	62.870	139.364	82.195	75.827	101.889	-	780.971
Liabilities									
Financial liabilities at amortised cost - Deposits Central banks	-	-	-	12.000	-	-	-	-	12.000
Financial liabilities at amortised cost - Deposits Credit institutions	348.094	83.545	159.925	16.818	26.248	13.425	-	-	648.055
Financial liabilities at amortised cost - Customer deposits	11.483	-	-	523	901	1.895	-	-	14.802
Financial liabilities at amortised cost - Other financial liabilities	28.815	-	-	-	-	-	-	-	28.815
Total	388.392	83.545	159.925	29.341	27.149	15.320	-	-	703.672
Gap	(222.628)	69.517	(97.055)	110.023	55.046	60.507	101.889	-	77.299
Cumulative Gap	(222.628)	(153.111)	(250.166)	(140.143)	(85.097)	(24.590)	77.299	77.299	

Financial year 2017	At a glance	Up to 1 month	Between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	More than 5 years	Unspecified and unclassified maturity	Total
	Thousands of Euros								
Assets									
Cash, balances with central banks and other demand deposits	106.039	-	-	-	-	-	-	-	106.039
Financial assets at fair value with changes in other comprehensive income	284	-	-	-	-	-	-	-	284
Loans and advances - Credit institutions	35.523	110.222	40.292	19.623	65.030	13.583	-	-	284.273
Loans and advances - Clientele	74	13.518	20.544	44.907	51.268	12.835	1.373	-	144.519
Financial assets at amortised cost - Debt instruments	-	-	-	-	-	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 - Deposits Central banks	-	-	12.500	-	-	-	-	-	12.500
Financial liabilities at amortised cost - Deposits Credit institutions	221.942	78.531	154.219	6.639	32.336	792		-	494.459
Financial liabilities at amortised cost - Customer deposits	15.801	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	

The Bank has sufficient lines of financing negotiated with Spanish banks. It also has the unconditional support of its parent company.

d) Operational and reputational risk

Operational risk is the probability of loss due to the inadequacy or failure of internal processes, personnel and systems or due to external events.

Reputational risk can be defined as the possibility of damage to the image, prestige or reputation of an entity, as a consequence of the perception that third parties may have of its actions.

These risks are additional to the economic risks of the operations themselves.

e) Fair value of financial instruments

The following tables present the fair value of the Bank's financial instruments at December 31, 2018 and 2017, broken down by class of financial assets and liabilities and at the following levels:

- LEVEL 1: Financial instruments whose fair value has been determined by taking their quoted price on active markets, without making any changes to those prices.

- LEVEL 2: Financial instruments whose fair value has been estimated based on quoted prices in organised markets for similar instruments or through the use of other valuation techniques in which all significant inputs are based on directly or indirectly observable market data.

- LEVEL 3: Instruments whose fair value has been estimated using valuation techniques in which some significant input is not based on observable market data.

For the purposes of the preceding paragraphs, an input is deemed to be significant when it is important in determining fair value as a whole.

	Thousands of Euros				
	Balance		Fair value hierarchy		
Financial year 2018	sheet	Fair value	Level 1	Level 2	Level 3
Assets					
Cash, balances with central banks and other demand deposits	165.674	165.674		143.661	22.013
Financial assets not held for trading mandatorily measured at fair value through profit or loss	75	75	-	-	75
Loans and advances - Credit institutions	309.227	309.227	-	-	309.227
Loans and advances - Clientele	152.818	154.843	-	-	154.843
Financial assets at amortised cost - Debt instruments	153.177	153.177			153.177
	780.971	782.996	-	143.661	639.335
Total assets					
Liabilities					
Financial liabilities at amortised cost					
Deposits from central banks	12.000	12.000	-	12.000	-
Deposits from credit institutions	648.055	648.055	-	-	648.055
Customer deposits	14.802	14.802	-	-	14.802
Other financial liabilities	28.815	28.815	-	-	28.815
Total liabilities	703.672	703.672	-	12.000	691.672

Financial year 2017	Thousands of Euros				
	Balance sheet	Fair value	Fair value hierarchy		
			Level 1	Level 2	Level 3
Assets					
Cash, balances with central banks and other demand deposits	106.039	106.039	-	79.080	26.959
Financial assets at fair value with changes in other comprehensive income - Equity instruments	284	284	-	-	284
Loans and advances - Credit institutions	284.273	284.273	-	-	284.273
Loans and advances - Clientele	144.519	144.496	-	-	144.496
Financial assets at amortised cost - Debt instruments	116.866	119.951	-	-	119.951
Total assets	651.981	655.043	-	79.080	575.963
Liabilities					
Financial liabilities at amortised cost					
Deposits from central banks	12.500	12.500	-	12.500	-
Deposits from credit institutions	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

The Bank's general valuation criteria for estimating the fair value of its financial instruments are as follows:

- In the event that an active market publishes quoted prices and these are deep and observable, these are taken as prices to obtain fair value.

- For instruments with little or no active markets, their fair value is determined, in most cases, on the basis of their acquisition cost at the initial stage. Subsequently, if a reliable estimate of fair value cannot be made on the basis of the observation of recent transactions in the same or similar instruments or the price of recent transactions, or through the use of a valuation model in which all the variables in the model are derived exclusively from observable market data, the fair value presented in the foregoing tables is equal to its cost and is presented as "Level 3".

- In the specific case of financial assets classified as "Demand deposits with credit institutions", "Loans and advances" and liabilities classified as at amortised cost presented in the foregoing tables, given their interest rate characteristics, maturity periods, counterparties, etc. The Bank's directors consider that their carrying amount (amortised cost) does not differ significantly from their fair value and, therefore, their cosamortised value is presented as fair value.

In 2018 and 2017 there were no transfers of financial instruments held at the end of those years between levels 1, 2 and 3.

6.2 CAPITAL MANAGEMENT

The strategic objectives set by the Bank in relation to the management of its own resources are as follows:

- Comply at all times with applicable regulations on minimum capital requirements.

- To seek maximum efficiency in the management of shareholders' equity, so that, together with other profitability and risk variables, the consumption of shareholders' equity is considered a fundamental variable in the analyses associated with the Bank's investment decisions.

In order to meet these objectives, the Bank has a series of policies and processes for managing its own resources, the main guidelines of which are as follows:

- The Bank's management monitors and controls the levels of compliance with Bank of Spain regulations on own resources, and has alarms that enable it to guarantee compliance with applicable regulations at all times. In this regard, there are contingency plans to ensure compliance with the limits established in the applicable regulations.

- In the Bank's strategic and commercial planning, as well as in the analysis and monitoring of the Bank's operations, the impact of these on computable capital and the consumption-return-risk ratio is considered a key factor in decision-making. In this regard, the Bank has procedures that establish the parameters that should serve as a guide for decision-making on minimum capital requirements.

The equity computed as such for the purposes of the solvency regulations applicable to credit institutions differs in some respects from the equity included in the Bank's financial statements, since it considers certain items as such and incorporates the obligation to deduct other items not contemplated in the aforementioned financial statements.

On 26 June 2013, the European Parliament and the Council of the European Union adopted Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms (hereinafter "Regulation (EU) No. 575/2013"), and Directive 2013/36/EU on the taking up and prudential supervision of the business of credit institutions and investment firms (hereinafter "Directive 2013/36/EU"), which entered into force on 1 January 2014, is to be phased in by 1 January 2019 and repeals the solvency rules in force until that date.

Regulation (EU) No. 575/2013 and Directive 2013/36/EU regulate own resources requirements in the European Union and take up the recommendations set out in the Basel III Capital Accord, specifically:

- Regulation (EU) No. 575/2013, directly applicable by the Member States, contains the prudential requirements to be implemented by credit institutions and among other aspects, covers:

    - The definition of computable equity elements, establishing the requirements that hybrid instruments must comply with for their calculation and limiting the calculation of accounting minority interests.

    - The definition of prudential filters and deductions of capital elements in each of the capital levels. In this regard, it should be noted that the Regulation incorporates new deductions with respect to Basel II (net tax assets, pension funds, etc.) and modifies existing deductions. However, a phased timetable for its full implementation of between 5 and 10 years is established.

    - The setting of minimum requirements, establishing three levels of equity: ordinary Tier 1 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 institutions calculate a leverage ratio, which is defined as the entity's Tier I capital divided by the total assumed non-risk adjusted exposure. From 2015 onwards, the ratio is publicly disclosed and the final definition is set for 2017 by supervisors.

- Directive 2013/36/EU, which is to be transposed by Member States into their national legislation in accordance with their own criteria, has as its main object and purpose the coordination of national provisions relating to the taking up and pursuit of the business of credit institutions and investment firms, their governance mechanisms and their supervisory framework. Directive 2013/36/EU, among other aspects, includes the requirement for additional capital requirements over those established in Regulation (EU) No. 575/2013, which will be progressively implemented until 2019 and whose non-compliance implies limitations on discretionary distributions of results, specifically:

    - A capital preservation buffer and countercyclical buffer, continuing the Basel III regulatory framework and in order to mitigate the pro-cyclical effects of financial regulation, includes an obligation to maintain a capital conservation buffer of 2.5 per cent on Tier I ordinary capital common to all financial institutions and an entity-specific counter-cyclical capital buffer on Tier I ordinary capital.

    - A mattress against systemic risks. On the one hand, for systemically important entities on a global scale, as well as for other systemically important entities, with the aim of mitigating acyclical systemic or macroprudential risks, i.e. to cover risks of disruptions in the financial system that could have serious negative consequences on that system and on the real economy of a Member State.

In addition, Directive 2013/36/EU, within the supervisory powers, establishes that the Competent Authority may require credit institutions to maintain own funds in excess of the minimum requirements set out in the aforementioned Directive.

As far as the Spanish normative scope is concerned, the new legislation is mainly directed towards the transposition of the European normative to the local scope:

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

- Bank of Spain Circular 2/2014 of 31 January to credit institutions on the exercise of various regulatory options contained in Regulation (EU) No. 575/2013. The purpose is to establish, in accordance with the powers conferred, which options of Regulation (EU) No 575/2013 the competent national authorities will have to comply with as from 1 January 2014 consolidable groups of credit institutions and credit institutions, whether or not they form part of a consolidable group, and with what scope. To this end, in this circular, the Banco de España makes use of some of the permanent regulatory options provided for in Regulation (EU) No. 575/2013, in general in order to allow continuity in the treatment that Spanish legislation had been giving to certain issues prior to the entry into force of said Community legislation, the justification for which, in some cases, comes from the business model traditionally followed by Spanish institutions. This does not exclude the future exercise of other options provided for the competent 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, without the need for a Bank of Spain circular.

- Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, the main purpose of which is to continue the process of transposition of Directive 2013/36/EU initiated by Royal Decree Law 14/2013 of 29 November and to recast certain national provisions in force to date in relation to the organisation and discipline of credit institutions. Among the main novelties, for the first time, the Bank of Spain is expressly obliged to present, at least once a year, a Supervisory Programme that includes the content and form that the supervisory activity will take, and the actions to be undertaken by virtue of the results obtained. This program will include the development of a stress test at least once a year.

- Bank of Spain Circular 2/2016 of 2 February. This Circular completes the process of transposition of Directive 2013/36/EU and sets out regulatory options for Competent National Authorities in addition to those set out in Circular 2/2014. Specifically, it contemplates the possibility of treating, with prior authorisation from the Bank of Spain, certain exposures to Public Sector Entities with the same weighting levels as the Administrations on which they depend.

In addition, in 2016 the European Central Bank published Regulation (EU) 2016/445 of 14 March 2016. With this regulation, the European Central Bank seeks to further harmonise the regulations applicable to entities under its direct supervision (significant entities) and the principle of level playing field. It entered into force on 1 October 2016, complementing the options and powers exercised by the competent national authorities.

On December 23, 2015, the Executive Committee of the Banco de España, pursuant to article 68.2.a of Law 10/2014, agreed to require the Entity to maintain a global capital ratio of ordinary level (CET1), at an individual level, of not less than 10.5%, as such ratio is defined in Regulation (EU) No. 575/2013.

On December 22, 2016, the Banco de España, in application of article 68.2.a of Law 10/2014, agreed to require the Entity to maintain total capital requirements of the PRES, as defined in the EBA/GL/2014/13 Guidelines, of not less than 12.26%.

On December 19, 2017, the Banco de España, in application of article 68.2.a of Law 10/2014, agreed to require the Entity to maintain total capital requirements of the PRES, as defined in the EBA/GL/2014/13 Guidelines, of not less than 11.28%. Likewise, the Entity is subject to the total capital requirements (TCR) as defined in section 1.2 of the EBAIGL/2014/13 Guidelines which includes, in addition to the "TSCR ratio", the requirement for combined mattresses as defined in article 43 and following of Law 10/2014 and its implementing regulations, 1.875% as from 1 January 2018.

With respect to minimum capital requirements, as of December 31, 2018 and 2017, the Bank has applied the following methods and considerations:

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

- In the requirements for position risk, exchange rate and raw materials: standard method.

- For the calculation of capital requirements linked to operational risk, the basic indicator method has been used.

- As of December 31, 2018 and 2017, the Bank had no exposure to settlement-delivery risk, fixed overhead risk, credit valuation adjustment risk, risk associated with large trading portfolio exposures, or other significant exposures to other risks.

The following is a detail of the Bank's different capital levels at 31 December 2018 and 2017 and of the requirements calculated in accordance with Regulation (EU) No. 575/2013 and Directive 2013/36/EU:

	2018		2017	
	Thousands of Euros	%	Thousands of Euros	%
Tier I ordinary capital [1]	71.806	21,01	67.671	18,93
Tier I capital [2]	71.806	21,01	67.671	18,93
Tier II capital [2]	-	-	-	-
Total capital	71.806	21,01	67.671	18,93
Total total capital requirements	38.562	11,28	43.817	12,26

(1) Includes, share capital and reserves, minus participations in which the Bank has a significant investment (the Bank has no other elements and or deductions that reduce the capital of level I ordinary).

(2) At December 31, 2018 and 2017 the Bank did not have any applicable elements or deductions as additional Tier I or II capital.

7. CASH, BALANCES WITH CENTRAL BANKS AND OTHER DEMAND DEPOSITS

The detail of "Cash, Cash at Central Banks and Other Demand Deposits" in the accompanying balance sheets at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Cash	20	22
Cash balances at central banks	143.661	79.080
Other demand deposits at credit institutions (a)	21.993	26.937
Total (b)	165.674	106.039

(a) In 2018 and 2017, demand deposits at credit institutions have been considered as a cash component for the purposes of preparing the cash flow statement.

(b) The detail, by remaining term to maturity, of these headings is detailed in Note 6-c on liquidity risk and the average interest rates of return in Note 6-b.

The balances held at the Bank of Spain are subject to compliance with the minimum reserve ratio, as stipulated in current legislation.

8. FINANCIAL ASSETS NOT HELD FOR TRADING MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The detail of these asset headings in the balance sheet is as follows:

	Thousands of Euros	
	2018	2017
Financial assets not held for trading mandatorily valued at value reasonable with changes in results		
Equity instruments	75	-
	75	-
Financial assets at fair value with changes in other comprehensive income		
Equity instruments	-	284
	-	284

Equity instruments include mainly shares acquired in the financial restructuring processes of the aforementioned entities, through the conversion of debt instruments into equity instruments.

At 31 December 2018, EUR 252 thousand of losses were recognised under "Gains or (-) Losses on Financial Assets Not Held for Trading Mandatorily Measured at Fair Value Through Profit or Loss" in the consolidated income statement relating to the change in the fair value of these equity instruments during the year (EUR 203 thousand of losses at 31 December 2017 under "Financial Assets at Fair Value Through Change in Other Comprehensive Income").

9. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND ADVANCES

The detail of this caption on the asset side of the balance sheet is as follows:

	Thousands of Euros	
	2018	2017
Loans and advances - Credit institutions	309.227	284.273
Loans and advances - Clientele	152.818	144.519
Total	462.045	428.792

9.1 Loans and advances - Credit institutions

The breakdown of this balance sheet heading is as follows:

	Thousands of Euros	
	2018	2017
Term accounts	308.435	283.641
Valuation adjustments		
Impairment losses on assets	(614)	(339)
Accrued interest	1.526	1.117
Commission	(120)	(146)
Total	309.227	284.273

The detail, by remaining term to maturity, of this heading is detailed in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

9.2 Loans and advances - Clientele

The breakdown of this caption in the accompanying balance sheet, by loan type and status, counterparty sector and interest rate type, is as follows:

	Thousands of Euros	
	2018	2017
By modality and credit situation:		
Commercial Portfolio	120.875	103.083
Other term receivables	27.553	40.612
Accounts receivable at sight and miscellaneous	-	2
Other financial assets	-	-
Doubtful assets	10.879	5.323
Valuation adjustments	(6.489)	(4.501)
Total	152.818	144.519
By sector:		
Other resident sectors	35.230	38.200
Non-resident public administrations	29.077	41.930
Other non-resident sectors	88.511	64.389
Total	152.818	144.519
By interest rate modality:		
Fixed	103.590	69.549
Variable	49.228	74.970
Total	152.818	144.519

The detail, by remaining term to maturity, of this heading is detailed in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

At 31 December 2018 there were secured loans and advances to customers in relation to financing received from the Bank of Spain (see Note 15.1) amounting to EUR 10,667 thousand (2017: EUR 11,500 thousand).

The detail of valuation adjustments made on transactions classified as "Loans and advances to customers" is as follows:

	Thousands of Euros	
	2018	2017
Valuation adjustments:		
Impairment losses on assets	(7.168)	(5.126)
Accrued interest	919	807
Commission	(240)	(182)
Total	(6.489)	(4.501)

9.3 Impairment losses

The detail of the impairment losses recorded at year-end 2018 and 2017 for the assets in the "Loans and advances" portfolio is as follows:

	Thousands of Euros			
Financial year 2018	Specific	Generic	Country risk (*)	Total
Balance as of December 31, 2017	3.927	665	872	5.464
Adjustment of first application Circular 4/2017	112	1.082	(517)	677
Provisions charged to income				
Individually determined	2.935	-	1.168	4.103
Determined collectively	-	1.210	-	1.210
Recovery of provisions with payment to results	(152)	(1.774)	(1.247)	(3.173)
Usage	(499)	-	-	(499)
Other movements	-	-		-
Balance as of December 31, 2018	6.323	1.183	276	7.782
Of which:				
Depending on the form of its determination:				
Individually determined	6.322	-	276	6.598
Collectively determined	-	1.185	-	1.185
Depending on the geographical area in which the risk is located:				
Spain	5.375	150	-	5.525
Other	947	1.035	276	2.258
Depending on the nature of the hedged asset:				
Loans and advances to customers	5.376	571	276	6.222
Foreign credit institutions	-	614	-	614

Financial year 2017	Thousands of Euros Specific	 Generic	 Country risk (*)	 Total
Balance as of December 31, 2016	6.388	445	727	7.560
Provisions charged to income				
Individually determined	3.248	-	481	3.729
Determined collectively	-	527	-	527
Recovery of provisions with payment to results	-	(307)	(336)	(643)
Usage	(5.709)	-		(5.709)
Other movements	-	-		-
Balance as of December 31, 2017	3.927	665	872	5.464
Of which:				
Depending on the form of its determination:				
Individually determined	3.927	-	872	4.799
Collectively determined	-	665	-	665
Depending on the geographical area in which the risk is located:				
Spain	3.927	132	-	4.059
Other	-	533	872	1.405
Depending on the nature of the hedged asset:				
Loans and advances to customers	3.927	326	871	5.124
Foreign credit institutions	-	339	1	340

(*) As indicated in Note 2(a), as from 1 January 2018, Bank of Spain Circular 4/2017 of 27 November replaces Bank of Spain Circular 4/2004 of 22 December and includes modifications to the requirements for the classification and valuation of financial assets and liabilities, impairment of financial assets and hedge accounting. In this respect, certain breakdowns included are not comparative with respect to 2017.

(**) Includes provisions for country risk for loans and advances and guarantees granted to credit institutions and customers.

In the foregoing tables, the use of funds corresponds to a decrease in bad loans considered to be uncollectible.

At 31 December 2018, the Bank had classified transactions as doubtful assets amounting to EUR 10,879 thousand (2017: EUR 5,323 thousand), the detail being as follows:

	Thousands of Euros					
Financial year 2018	Payment Stream	Up to 6 months	Between 6 and 9 months	Between 9 and 12 months	More than 12 months	Total
By geographical areas:						
- Spain	-	-	-	-	7.315	7.315
- Other	-	-	-	-	3.564	3.564
Total	-	-	-	-	10.879	10.879
By counterparty classes:						
- Public Administrations	-	-	-	-	-	-
- Other resident sectors	-	-	-	-	7.315	7.315
- Other non-resident sectors	-	-	-	-	3.564	3.564
Total	-	-	-	-	10.879	10.879
By counterparty classes:						
- Commercial credit	-	-	-	-	-	-
- Loans and credits	-	-	-	-	10.879	10.879
- Other assets	-	-	-	-	-	-
Total	-	-	-	-	10.879	10.879

	Thousands of Euros					
Financial year 2017	Payment Stream	Up to 6 months	Between 6 and 9 months	Between 9 and 12 months	More than 12 months	Total
By geographical areas:						
- Spain	-	-	-	-	5.320	5.320
- Other	-	-	-	-	3	3
Total	-	-	-	-	5.323	5.323
By counterparty classes:						
- Public Administrations	-	-	-	-	-	-
- Other resident sectors	-	-	-	-	5.320	5.320
- Other non-resident sectors	-	-	-	-	3	3
Total	-	-	-	-	5.323	5.323
By counterparty classes:						
- Commercial credit	-	-	-	-	499	499
- Loans and credits	-	-	-	-	4.821	4.821
- Other assets	-	-	-	-	3	3
Total	-	-	-	-	5.323	5.323

The detail of "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss" in the income statement at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Recovery (endowment) of financial assets at amortised cost	(2.444)	(3.949)
Recovery (endowment) of financial assets at fair value with changes in other comprehensive income	-	(203)
Recovery of failed assets	15	-
Total	(2.429)	(3.949)

The changes in impaired financial assets derecognised in 2018 and 2017 were as follows:

	Thousands of Euros	
	2018	2017
Opening balance	384	940
Additions charged to corrections for impairment of assets	484	384
Cash recovery of uncollected past-due products	-	-
Losses of failures	-	(940)
Closing balance	868	384

At 31 December 2018 and 2017, there were no significant amounts outstanding to be collected, classified as normal risk or under special vigilance.

10. FINANCIAL ASSETS AT AMORTISED COST - DEBT SECURITIES

The breakdown, by counterparty sector and interest rate type, of the "Financial Assets at Amortised Cost - Debt Instruments" portfolio is as follows:

	Thousands of Euros	
	2018	2017
By sector		
Spanish Public Administrations - Autonomous Communities	30.273	26.304
Non-resident credit institutions	-	16.879
Other resident sectors	16.276	19.270
Non-resident general government	103.967	50.385
Other non-resident sectors	3.078	3.073
Doubtful assets	-	3.000
Impairment losses on assets	(417)	(2.045)
Total	153.177	116.866
By type of interest rate		
Fixed	153.177	116.866
Variable	-	-
Total	153.177	116.866

The detail, by remaining term to maturity, of this heading is detailed in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

In 2018 there were four divestments included in the "Financial Assets at Amortised Cost - Debt Instruments" portfolio, which were recognised for a total amount of EUR 24,335 thousand, giving rise to gains of EUR 201 thousand, which were recognised in the income statement for the year. The reasons for the divestments were due to early redemption by the issuer, deterioration in the credit quality of the issuer and the maturity of the operations.

In 2017 two divestments were made in the "Financial Assets at Amortised Cost - Debt Instruments" portfolio (formerly "Investments Held to Maturity"), which were recognised for a total amount of EUR 9,655 thousand, giving rise to a gain of EUR 294 thousand and a gain of EUR 3,146 thousand, giving rise to losses of EUR 3 thousand, which were recognised in the income statement for the year. The reason for the divestment was, in one case, early redemption by the issuer and, in the other case, for exceptional reasons.

At 31 December 2018 there was a portfolio of "Financial Assets at Amortised Cost - Debt Instruments" affecting guarantees for the financing received from the Bank of Spain (Note 15.1) amounting to EUR 87,242 thousand (2017: EUR 83,716 thousand).

At 31 December 2018 and 2017, the Bank does not have any assets in the "Financial assets at amortised cost" portfolio that are overdue.

The changes in the impairment losses on this portfolio in 2018 and 2017 were as follows:

	Thousands of Euros			
	Specific	Generic	Country	Total
Balance as of December 31, 2017	2.000	45	-	2.045
Adjustment of first application Circular 4/2017	-	67	-	67
Provisions charged to income				
Individually determined	-	-	-	-
Determined collectively	-	148	240	388
Recovery of provisions with payment to results	-	(83)	-	(83)
Usage	(2.000)	-	-	(2.000)
Balance as of December 31, 2018	-	177	240	417

	Thousands of Euros			
	Specific	Generic	Country	Total
Balance as of December 31, 2016	2.000	88	-	2.088
Provisions charged to income				
Individually determined	176	-	-	176
Determined collectively	-	21	-	21
Recovery of provisions with payment to results	-	(64)	-	(64)
Usage	(176)	-	-	(176)
Balance as of December 31, 2017	2.000	45	-	2.045

(*) As indicated in Note 2(a), as from 1 January 2018, Bank of Spain Circular 4/2017 of 27 November replaces Bank of Spain Circular 4/2004 of 22 December and includes modifications to the requirements for the classification and valuation of financial assets and liabilities, impairment of financial assets and hedge accounting. In this respect, certain breakdowns included are not comparative with respect to 2017.

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

At 31 December 2018 and 2017, "Non-current assets and disposal groups of items classified as held for sale" were not recognised in the balance sheet.

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The detail of this caption in the balance sheet is as follows:

	Thousands of Euros	
	2018	2017
Investments in associates		
Cost	1.063	1.063
Impairment losses	-	-
Total	1.063	1.063

On April 10, 2012, the Bank incorporated BMCE Euroservices, S.A. as its sole shareholder. On 12 September 2014, it was resolved to increase the Company's share capital by EUR 3,768 thousand, bringing its share capital to EUR 4,831 thousand. This capital increase was fully subscribed and paid up by the parent company, and the Bank's stake in this company was set at 22%. The investee is not listed on the stock exchange and its main figures at 31 December 2018 and 2017 are as follows.

Name	BMCE Euroservices, S.A.
Domicile:	C/ Alcalá, 21 (Madrid)
Activity	Provision of payment services
Capital stock:	4,831 thousand euros (2017: 4,831 thousand euros)
Reservations:	275 thousand euros (2017: 254 thousand euros)
Negative results from previous years:	(2017: 115 thousand euros)
Profit for the year after tax:	(473) thousand euros (2017: 142 thousand euros)
Auditor of the Company:	Unaudited Financial Statements/Bové Montero y Asociados

No dividends were received from the investee in 2018 (2017: no dividends were received).

No impairment losses were recorded in 2018 (nor in 2017).

13. TANGIBLE ASSETS

The variations in 2018 and 2017 in the balances of the tangible assets accounts and the related accumulated depreciation were as follows:

	Thousands of Euros			
Financial year 2018	Real Estate	Furniture, Facilities and Others	Computer equipment	Total
Cost				
Balances at 1 January 2018	2.675	1.326	429	4.430
Additions	-	74	12	86
Retirements	-	-	-	-
Balances as of December 31, 2018	2.675	1.400	441	4.516
Accumulated depreciation				
Balance at 1 January 2017	(406)	(1.133)	(413)	(1.952)
Endowments	(15)	(41)	(10)	(66)
Disposals and other items	-	-	-	-
Amortization as of December 31, 2018	(421)	(1.174)	(423)	(2.018)
Net balances as of December 31, 2018	2.254	226	18	2.498

	Thousands of Euros			
Financial year 2017	Real Estate	Furniture, Facilities and Others	Computer equipment	Total
Cost				
Balances at 1 January 2017	2.675	1.256	426	4.357
Additions	-	70	3	73
Retirements	-	-	-	-
Balances as of December 31, 2017	2.675	1.326	429	4.430
Accumulated depreciation				
Balance at 1 January 2017	(392)	(1.074)	(404)	(1.870)
Endowments	(14)	(59)	(9)	(82)
Disposals and other items	-	-	-	-
Amortization as of December 31, 2017	(406)	(1.133)	(413)	(1.952)
Net balances at December 31, 2017	2.269	193	16	2.478

At 31 December 2018 and 2017, the balance of the property account includes the value of land, amounting to EUR 1,915 thousand.

At 31 December 2018, fully depreciated fixed assets amounted to EUR 1,630 thousand (2017: EUR 1,408 thousand).

The property, owned by the Bank, is covered by insurance policies that have entailed an expense for the Bank of 5 thousand euros in 2018 (2017:5 thousand euros).

14. OTHER ASSETS AND LIABILITIES

The breakdown of the balance of these headings in the accompanying balance sheet for 2018 and 2017 is as follows:

	Thousands of Euros			
	Assets		Liabilities	
	2018	2017	2018	2017
Accruals/deferrals	119	166	424	210
Other	76	54	-	-
Total	195	220	424	210

15. FINANCIAL LIABILITIES AT AMORTISED COST

The detail of this caption on the liability side of the balance sheet is as follows:

	Thousands of Euros	
	2018	2017
Deposits from central banks	12.000	12.500
Deposits from credit institutions	648.055	494.459
Customer deposits	14.802	17.607
Other financial liabilities	28.815	57.019
Total	703.672	581.585

In 2018 and 2017 the Bank did not issue any bonds, bonds or mortgage-backed securities.

15.1 Deposits from central banks

The detail of this caption on the liability side of the balance sheet is as follows:

	Thousands of Euros	
	2018	2017
Bank of Spain	12.000	12.500
Valuation adjustments		
Accrued interest	-	-
Total	12.000	12.500

The detail, by remaining term to maturity, of this heading is detailed in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

At 31 December 2018 there were securities included in the "Financial Assets at Amortised Cost" portfolio amounting to EUR 87,242 thousand (2017: EUR 83,716 thousand) and two credit investment transactions amounting to EUR 10,667 thousand (2017: EUR 11,500 thousand), which were used as security for the financing received from the Bank of Spain.

15.2 Deposits from credit institutions

The detail of this caption on the liability side of the balance sheet, depending on the nature of the instrument, is as follows:

	Thousands of Euros	
	2018	2017
Term accounts	299.730	272.362
Other accounts	348.090	221.941
Valuation adjustments		
Accrued interest		
Resident entities	-	5
Non-resident entities	235	151
Total	648.055	494.459

The detail, by remaining term to maturity, of this heading is detailed in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

15.3 Deposits from customers

The detail, by counterparty and type of financial liability, of the balance of this caption in the accompanying balance sheet is as follows:

	Thousands of Euros	
	2018	2017
Other resident sectors		
Demand deposits		
Current accounts	9.149	14.240
Time deposits	3.319	1.806
Valuation adjustments	-	-
Accrued interest	1	1
Other non-resident sectors	-	-
Demand deposits	-	-
Current accounts	2.333	1.560
	-	
Total	14.802	17.607

The detail, by remaining term to maturity, of this heading is detailed in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

15.4 Other financial liabilities

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

	Thousands of Euros	
	2018	2017
Use of documentary credits (see Note 7)	28.669	35.507
Collection accounts	146	277
Outstanding payment orders	-	21.113
Clearing houses	-	-
Other	-	122
Total	28.815	57.019

The "Payment Orders Outstanding" caption includes mainly funds pending payment to customers who do not have an account with the Bank, which are settled in the first few days of the following year.

The detail, by remaining term to maturity, of this heading is detailed in Note 6.c on liquidity risk and average interest rates of return in Note 6.b.

16. PROVISIONS

This chapter includes the amount of the provisions recorded to cover contingent risks, understood as those operations in which the Entity guarantees obligations of a third party, arising as a consequence of financial guarantees granted or other types of contracts, and contingent commitments, understood as irrevocable commitments that may give rise to the recognition of financial assets.

The detail of this caption in the balance sheet and of the changes therein in 2018 and 2017 is as follows:

	Thousands of Euros		
	Specific	Generic	Total (*)
Balance as of December 31, 2016	-	170	170
Provisions charged to income			
Individually determined	480	67	547
Determined collectively	-	-	-
Recovered funds	-	(175)	(175)
Balance as of December 31, 2017	480	62	542
Adjustment of first application Circular 4/2017	-	90	90
Provisions charged to income	-	-	-
Individually determined	538	45	583
Determined collectively	-	-	-
Recovered funds	(2)	(12)	(14)
	-	-	-
Balance as of December 31, 2018	1.016	185	1.201

(*) As indicated in Note 2(a), as from 1 January 2018, Bank of Spain Circular 4/2017 of 27 November replaces Bank of Spain Circular 4/2004 of 22 December and includes modifications to the requirements for the classification and valuation of financial assets and liabilities, impairment of financial assets and hedge accounting. In this respect, certain breakdowns included are not comparative with respect to 2017.

17. OWN FUNDS

At 31 December 2018 the share capital was EUR 40,635 thousand (2017: EUR 40,635 thousand), fully subscribed and paid, and at 31 December 2018 and 2017 it was represented by 666,149 registered shares of EUR 61 par value each. On September 5, 2016, a deed was executed to increase the company's capital, based on the resolutions adopted at the Universal Meeting held on April 18, 2016, whereby the share capital was increased by the amount of 15,000,037.41 euros, by increasing the par value of the shares and issuing new shares, the share capital being set at 40,635,089.00 euros, represented by 666,149 shares with a par value of 61.00 euros each.

The Bank's shares are not listed on the stock exchange, have the same characteristics and grant the same rights to their holders.

On March 26, 2008, the Bank formalized and registered its status as a Sole-Shareholder Company.

On October 29, 2014, the minutes of the protocolisation of the agreement by which BMCE BANK OF AFRICA cedes all the shares comprising the Bank's share capital to BMCE International Holdings PLC, a company domiciled in London (United Kingdom), which also belongs to the parent company's group and becomes the Bank's sole shareholder, with a guarantee of full ownership. This change of sole shareholder was registered in the Mercantile Registry on 7 July 2015.

The composition of the Bank's shareholders and their percentage of ownership at 31 December 2018 and 2017 is as follows:

	%	
	2018	2017
BMCE International Holdings PLC (*)	100,00	100,00
Total	100,00	100,00

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

As of December 31, 2018 and 2017, the Bank had not signed any contracts with its sole shareholder.

The detail, by item, of the balance of reserves is as follows:

	Thousands of Euros	
	2018	2017
Legal reserve	4.524	3.988
Voluntary reserve	23.449	19.850
Total	27.973	23.838

In accordance with the Consolidated Spanish Companies Law, Spanish entities that obtain profits in the fiscal year must transfer 10% of the net profit for the year to the legal reserve. These endowments must be made until the reserve reaches 20% of the share capital. The legal reserve may be used to increase the share capital in that part of its balance that exceeds 10% of the increased share capital.

18. GUARANTEES GIVEN

The detail of the "Guarantees granted" by the Entity at the close of fiscal years 2017 and 2016 is shown below:

	Thousands of Euros	
	2018	2017
Other commitments granted		
Guarantors	12.246	14.722
Irrevocable documentary credits		
Issued irrevocably	-	-
Confirmed irrevocable	31.259	60.893
Total	43.505	75.615

A significant part of these amounts will reach maturity without any payment obligation being materialised for the Entity, and therefore the joint balance of these commitments cannot be considered as a real future need for financing or liquidity to be granted to third parties by the Entity.

The income obtained from guarantee instruments is recorded under the "Fees and Commissions Received" caption in the income statements and is calculated by applying the rate established in the contract from which it arises to the nominal amount of the guarantee.

19. TAX POSITION

The detail of the tax assets and liabilities at 31 December 2018 and 2017, respectively, is as follows:

	Thousands of Euros			
	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Currents	278	-	6	381
Deferred	-	-	-	-
Total	278	-	6	381

The changes in current and deferred tax assets and liabilities in 2018 and 2017 were as follows:

	Thousands of Euros							
	2018				2017			
	Tax assets		Tax liabilities		Tax assets		Tax liabilities	
	Currents	Deferred	Currents	Deferred	Currents	Deferred	Currents	Deferred
Opening balance	6	-	381	-	710	-	-	-
	-	-	-	-				
High	3.889	-	-	-	1.997	-	381	-
Retirements	(3.617)	-	(381)	-	(2.701)	-	-	-
Other	-	-	-	-	-	-	-	-
	-	-	-	-				
Closing balance	278	-	-	-	6	-	381	-

The reconciliation of profit for the year to taxable profit for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Profit for the year, before the provision for corporate income tax	11.181	7.593
Increases (decreases) due to permanent differences:	(31)	351
	-	
Adjusted accounting profit	11.150	7.944
	-	
Increases (decreases) due to temporary differences charged to income or loss	-	-
	-	
Taxable income	11.150	7.944

	Thousands of Euros			
	2018		2017	
	Tax accrued	Tax Pay	Tax Accrued	Tax Pay
Fee (30%)				
On adjusted accounting profit	3.345	-	2.383	-
On a taxable basis	-	3.345	-	2.383
Deductions	-	-	(5)	(5)
Payments on account and withholdings	-	(3.617)	-	(1.997)
	-	-		
Subtotal	3.345	(272)	2.378	381
Prior year's income tax adjustment	(66)	-	(149)	-
Other	-	-	5	-
	-	-		
Expense / Taxes (receivable) pay	3.279	(272)	2.234	381

The Entity has the last four fiscal years open for inspection. Due to the different interpretations that can be made of the tax regulations applicable to the Bank's operations, certain contingent tax liabilities that cannot be objectively quantified could exist for years pending inspection. However, in the opinion of the Bank's directors and its tax advisors, the possibility of such contingent liabilities materializing in future inspections is remote and, in any case, the tax debt that might arise therefrom would not materially affect the annual accounts.

20. PROFIT AND LOSS ACCOUNT

a) Interest income and interest expense.

The detail of the balance of this caption in the accompanying statement of income is as follows:

	Thousands of Euros	
	2018	2017
Interest income		
Deposits with central banks	-	-
Loans and advances to credit institutions	7.218	4.305
Loans and advances to customers	5.235	4.829
Debt instruments	3.931	2.997
	-	
	16.384	12.131
Interest expense		
Deposits from central banks	(134)	(81)
Deposits from credit institutions	(3.919)	(2.639)
Customer deposits	(302)	(133)
	-	
Total	(4.355)	(2.853)

b) Commission income and commission expenses.

The "Fee and commission income" and "Fee and commission expense" captions in the accompanying statement of income include the amount of all fees and commissions payable to or in favour of the Bank accrued during the year, except for those which form an integral part of the effective interest rate of financial instruments.

The detail, by product, of the fee and commission income or expense in 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Commission income		
For contingent risks	3.089	3.034
For contingent commitments	766	762
For collection and payment services	2.797	2.286
Other commissions	22	17
Total	6.674	6.099
Commission expenses		
Corrections in active and passive operations	(43)	(41)
Commissions assigned to other entities and correspondents	(84)	(87)
Commissions paid on securities transactions	(17)	(6)
Total	(144)	(134)

c) Staff costs

The detail of the balance of this caption in the accompanying statement of income is as follows:

	Thousands of Euros	
	2018	2017
Salaries and gratuities to active personnel	2.426	2.817
Social Security contributions	439	386
Provisions to defined contribution plans (Note 3-n)	13	95
Severance payments	6	-
Training expenses	3	4
Other staff costs	96	102
Total	2.983	3.404

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

	Number of employees					
	2018			2017		
	Average no. in the fiscal year	No. at closing		Average no. in the fiscal year	No. at closing	
		Men	Women		Men	Women
Senior Management	1	1	-	1	1	-
Directors	5	4	1	5	4	1
Technicians - leadership	11	8	3	12	9	3
Administrative - Technicians without leadership	27	9	18	22	8	14
General Services	1	1	-	1	1	-
Total	45	23	22	41	23	18

In 2018 and 2017 the Bank did not have any employees with a disability greater than or equal to 33%.

d) Other administrative expenses

The detail of the balance of this caption in the accompanying statement of income is as follows:

	Thousands of Euros	
	2018	2017
For buildings, installations and equipment	355	334
Computers	549	547
Communications	314	271
Advertising and propaganda	7	4
Judicial and legal expenses	79	48
Technical reports	392	182
Surveillance and fund transfer services	3	4
Insurance premiums and self-insurance	53	293
By organs of government and control	-	-
Representation and travel expenses of staff	132	241
Association dues	241	172
Contributions and taxes		
About real estate	16	14
Other	41	32
Other expenses	4	26
Total	2.186	2.168

e) Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net

	Thousands of Euros	
	2018	2017
Results of loans and discounts	-	164
Results of financial assets at amortised cost - equity instruments	135	291
Other	-	681
Total	135	1.136

The amount of "Other" in fiscal year 2017 was due to the agreement between a borrower and BMCE BANK INTERNATIONAL, instrumented in a contract for the divestment of Mortgaged Real Estate Assets dated July 4, 2017, and the subsequent mortgage cancellation deed dated December 27, 2017.

21. RELATED PARTIES

Group Entities

The Entity is dependent on its parent company, BMCE BANK OF AFRICA (see Note 17), and maintains with it and with other entities of the group mainly correspondent relationships for foreign trade operations, as well as those corresponding to transfers abroad.

All transactions with related companies are carried out at the market rate.

The Bank's balances as of December 31, 2018 and 2017, and the transactions performed during 2018 and 2017 with related parties are as follows:

	Thousands of Euros			
	Head Office		Other group entities	
	2018	2017	2018	2017
Assets				
Loans and advances to credit institutions	34.899	19.210	6.707	2.058
Financial assets at amortised cost - debt securities	-	16.878	-	-
Other assets	-	-	1.063	1.063
Liabilities				
Deposits from credit institutions	106.857	118.977	21.892	12.470
Other financial liabilities	1.917	-	1.697	-
Memorandum accounts				
Guarantees granted	1.456	5.651	2.824	3.019
Contingent commitments granted	-	-	-	-
Income				
Interest and similar income	9	627	-	-
Other operating income	-	-	-	-
Expenses				
Interest and similar charges	2.698	627	-	-

Remuneration and other benefits to the Board of Directors

In 2018 and 2017, the members of the Bank's Board of Directors earned 100 thousand euro (2017: 60 thousand euro) in salaries, which are not on the payroll because they are not employees. As of December 31, 2018 and 2017, the only member of Senior Management is also a member of the Board of Directors.

In addition, there are no advances, loans or guarantees granted or obligations assumed by the Bank in respect of pensions or life insurance with current or former members of the Bank's Board of Directors that have accrued in their capacity as directors.

The remuneration received by senior executives in 2018 and 2017 amounted to EUR 527 thousand and EUR 1,052 thousand, respectively. In addition, the contributions made in respect of defined contribution pension obligations (see Note 3-n), recognised in the consolidated income statement for 2018, amounted to EUR 0 thousand (2017: EUR 84 thousand).

The insurance premiums paid to members of senior management amounted to EUR 4 thousand and EUR 7 thousand in 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the Entity had not granted loans or advances with Senior Management.

In accordance with the provisions of Article 229 of the Corporations Law, the directors have informed the Bank that, during 2018, they or their related persons, as defined in Article 231 of the aforementioned Corporations Law:

- They have not carried out transactions with the Bank, without taking into account ordinary operations, made under standard conditions for customers and of little relevance, understood as those whose information is not necessary to give a true and fair view of the Bank's net worth, financial situation and results.

- They have not used the Bank's name or invoked their status as directors to unduly influence the conduct of private transactions.

- They have not used corporate assets, including confidential information of the Bank, for private purposes.

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

- They have not received any benefits or remuneration from third parties other than the Bank and its Group associated with the performance of their duties, except in the case of mere courtesy.

- They have not engaged in any activity, whether on their own account or on behalf of others, that would involve effective competition, whether on an ad hoc or potential basis, with the Bank or otherwise place them in permanent conflict with the interests of the Bank.

22. OTHER INFORMATION

Agency Contracts

At 2018 and 2017 year-end, and at no time during those years, the Bank had "agency agreements" in force.

Operating leases

The Bank rented three premises at the end of 2018 and 2017 to carry out its business under a lease agreement. The cost of this lease amounts to EUR 185 thousand in 2018 (2017: EUR 162 thousand).

Credit Commitments

This item covers irrevocable commitments to provide financing subject to certain conditions and predetermined deadlines. All of the Bank's credit commitments are immediately available.

The detail of credit commitments in 2018 and 2017, grouped by counterparty and indicating the limit and the amount to be drawn down, is as follows:

	Thousands of Euros			
	2018		2017	
	Limit	Available	Limit	Available
Available by third parties				
By credit institutions	19.819	4.021	57.924	-
By other resident sectors	46.357	23.908	38.909	39.417
By other non-resident sectors	500	6	50.951	-
Total	66.676	27.935	147.784	39.417

The average interest rate offered for these commitments is 2.5% in 2018 (2017: 2.93%).

External audit

The net fees accrued by KPMG Auditores, S.L. for auditing the Bank's 2018 financial statements amounted to EUR 35 thousand (EUR 35 thousand in 2017 for KPMG Auditores, S.L.). Also, the fees for other professional services related to auditing amounted to EUR 13 thousand in 2018 (EUR 10 thousand in 2017).

On the other hand, other entities affiliated to KPMG International have not invoiced the Bank for professional services during the year ended 31 December 2018.

Customer Service

Article 17 of Order ECO/734/2017, of 11 March, of the Ministry of the Economy establishes the obligation for customer service departments and services and, where appropriate, customer ombudsmen, of financial institutions, to submit an annual report to the Board of Directors explaining the development of their function during the previous year. In the course of fiscal years 2018 and 2017, no claims have been received for this service.

Abandoned balances and deposits

In accordance with the provisions of Article 18 of Law 33/2003 of 3 November on the assets of public administrations, the Bank does not hold any balances and deposits that have been plunged into abandonment in accordance with the provisions of the aforementioned Article.

Environmental information and greenhouse gas emission allowances
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Given the activity in which the Entity engages, it has no environmental liabilities, expenses, assets, provisions or contingencies that could be significant in relation to its equity, financial situation and results. For this reason, no specific breakdowns are included in these notes to the annual accounts with respect to information on environmental issues.

Also, in 2018 and 2017, the Bank did not have any greenhouse gas emission rights.

Information on the average payment period to suppliers. Third additional provision. "Duty of information" of Law 15/2010, of 5 July

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The following table shows the information provided for in the third additional provision of "Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions", in accordance with the models established in the "Resolution of 29 January 2016, of the Institute of Accounting and Auditing of Accounts, on the information to be included in the notes to the annual accounts in relation to the average payment period to suppliers in commercial transactions":

	2018	2017
	Days	Days
Average payment period to suppliers	26	35
Key figure of paid operations	26	35
Key Figures for Outstanding Transactions	-	-
	Amount (thousands of euros)	Amount (thousands of euros)
Total payments made	2.213	1.998
Total payments pending	-	-

Other public information requested by Bank of Spain Circular 4/2017

The following is other public information required by Bank of Spain Circular 4/2017:

- The Bank's balances at December 31, 2018 and 2017 for refinancing and restructuring of financing granted to third parties are included in Note 6.a.6.
- As of December 31, 2018 and 2017, the Bank had not granted financing for the construction, real estate development and acquisition of housing.
- At December 31, 2018 and 2017, the Bank did not have any foreclosed assets or assets received in payment of debts of a significant amount (see Note 11).
- The distribution by individual activity of the Bank's loans and advances to customers at 31 December 2018 and 2017 is included in Note 6.a.5.
- The concentration of exposures by activity and individual geographical area at 31 December 2018 and 2017 is included in Note 6.a.5.
- As of December 31, 2018 and 2017, the Bank had not issued any mortgage securities.
- As of December 31, 2018 and 2017, the Bank had not issued any international notes and bonds.
- As of December 31, 2018 and 2017, the Bank had not issued any territorial warrants.

Earnings per share

In 2018, the Bank's weighted average number of shares was 666,149 (2017: 666,149 shares), with earnings per share amounting to approximately 11.04 euros (2017: 8.04 euros per share). These amounts relate to both basic and diluted earnings per share, since there are no instruments that can be considered as potentially ordinary shares.

23. EVENTS AFTER THE BALANCE SHEET DATE

Notwithstanding the foregoing, after December 31, 2018, and until March 22, 2019, the date on which the Bank's Board of Directors prepared its annual accounts, no significant event has occurred that should be included in the annual accounts in order for them to adequately show a true and fair view of the Bank's net worth, financial position and results.

ANNEX I

ANNUAL BANK STATEMENT

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, the information required by the aforementioned regulation is detailed below.

(a) Name, nature and geographical location of the Bank's activity.

BMCE BANK INTERNATIONAL, S.A.U.'s corporate purpose is to carry out all types of banking operations in general, as established in its Articles of Association, and is subject to the rules and regulations of banking institutions operating in Spain and credit institutions in general.

The Bank has its registered office in Madrid, calle Serrano, 59, headquarters of the only bank branch of the entity. Although the Bank has representative offices in Barcelona and Portugal, all the Bank's administration and management services are carried out exclusively through the Madrid branch. Therefore, all the information included in the following sections corresponds to the activity carried out in said bank office.

(b) Turnover, profit before tax, income tax and subsidies or public aid received

	Thousands of Euros	
	2018	2017
Interest and similar income	16.384	12.131
Profit before tax	11.181	7.593
Tax on profits	(3.824)	(2.234)
Subsidies or public aid received	-	-

(c) Number of full-time employees.

	No. of persons	
	2018	2017
Number of full-time employees	45	41

The return on assets, calculated as the division of net profit between the Bank's balance sheet total, was 0.94% (2017: 0.82%).

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2018

BMCE BANK INTERNATIONAL

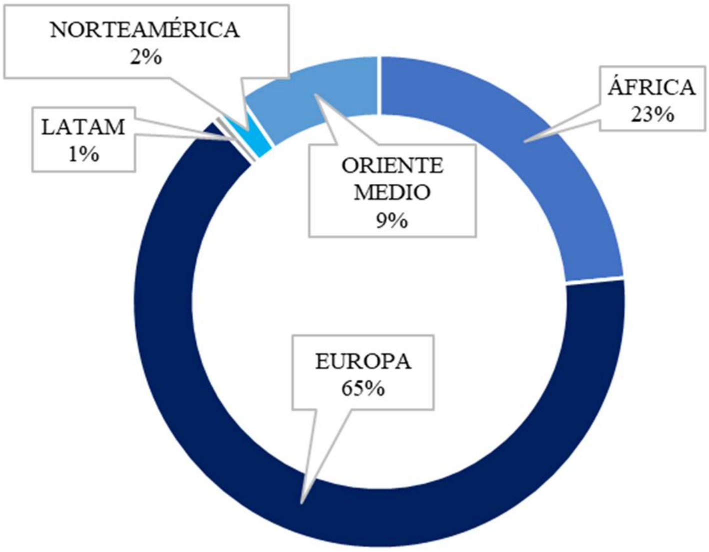
Management Report for the year ended 31 December 2018

Contents

1. Introduction

BMCE Bank International (hereinafter "BMCE" or "the Entity"), was incorporated in 1993 as a Spanish banking entity and registered with the Bank of Spain under number 0219.
The operation is centralised in the main office of BMCE Bank International, located in Madrid, although the Entity operates throughout Spain and Portugal. In addition to the main office, the Entity has two representative offices in Barcelona and Lisbon.
The Entity focuses its activity on Foreign Trade between Europe, Africa, the Middle East and, more recently, some Asian countries. In addition, it aims to contribute to the development of cooperation between the above-mentioned geographical areas, especially Africa and the Middle East. The business model developed by BMCE Bank International focuses on foreign trade and interbank market operations, the target audience of which are importing and/or exporting companies and financial institutions.
In terms of geographic concentration, as of December 31, 2018, the Entity has exposure mainly in Europe and Africa, followed by the Middle East and some geographic areas in North America (Canada, USA) and LATAM (Peru).

Chart: Exposure of the Entity by geographic market on 31/12/2018:



2. Economic environment

NATIONAL

In an environment marked by political instability both within the country (independence from Catalonia) and internationally (crisis of emerging economies, US protectionist policies, Brexit, etc.), quarterly GDP growth in the Spanish economy stood at 0.6% in the third quarter of 2018, a rate similar to that observed in the previous quarter. The acceleration in consumption (private and public) and investment in housing offset the slowdown in the other components of investment. On the other hand, net external demand continued to make an emphatic contribution. The decline in exports was somewhat greater than that of imports. In year-on-year terms, the growth rate of the PB remained at 2.5%, the same as that of employment.

According to the latest OECD economic report, the high economic growth that Spain has experienced will moderate in 2019 and 2020. Even so, the unemployment rate will continue to decline. Domestic demand, backed by low interest rates and strong employment growth, will continue to be the main driver of growth in the country's economy.

INTERNATIONAL

<u>U.S. Economy</u>

At the international level, 2018 has been a historic year for the US economy, whose economic expansion is about to become the longest in the historical series, according to the latest publication of the Economic Bulletin of the Bank of Spain. Specifically, the duration of this period of sustained growth has now reached nine years, with annualised quarterly GDP growth rates above 3.5% in the two central quarters of 2018, and an unemployment rate of 3.7% of the active population, its lowest level in the last 50 years. However, these growth indicators have given way to a less balanced composition of aggregate demand, with a greater share of consumption and a certain decline in investment, which could point to a certain depletion of the cycle[1].
The strong protectionist nature of the current US administration remains another key element in the US economic outlook. The imposition of trade tariffs falls under the authority of presidencies, with the outcome of mid-term elections unlikely to alter the protectionist trade policy agenda. If the threats made materialize, the trade conflict could subtract up to one percentage point from US GDP growth in 2019, according to IMF and OECD estimates[2].

<u>Emerging markets crisis</u>

The financial tensions experienced throughout 2018 by some emerging economies reflect growing global interdependence, which has accentuated the exposure of these countries to international economic and financial events. In particular, emerging economies have been subject to the effects of the trade tensions between China and the United States and to those arising from the combination of fiscal and monetary policies in the United States, which have led to an appreciation of the dollar and a tightening of international financial conditions.

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[1] Boletín Económico de Banco de España, 4th quarter 2018
[2] *World Economic Outlook*, FMI (2018) y *Economic Outlook,* OECD (2018)

Trade tensions between China and the United States

In the case of China, the country's main financial vulnerabilities stem from trade tensions with the United States and the process of rebalancing the economy towards a growth model based more on the services sector and private consumption, and less on investment and exports, with very high rates of corporate indebtedness. The corporate debt ratio exceeded 150% of GDP in 2017. Financial institutions are increasingly financing themselves in the markets (the issuance of deposit certificates in 2017 and 2018 was multiplied by do), which, together with the slowdown in deposits, has raised the loan/deposit ratio to close to one unit. Secondly, throughout 2017 there was a strong increase in the issuance of banks and real estate companies in the country's international markets, which could entail certain risks when it comes to dealing with the maturities of the external debt of these sectors. Despite all this, China continues to have a high estimated volume of international reserves and low levels of external and public debt, which give it considerable room for manoeuvre.

3. 2018 milestones

- Increase in the balance sheet and income statement, the Entity has been recording a solid growth that is reflected in its financial statements.
- Compliance with ratios in accordance with the Entity's Risk Appetite Framework.
- Good risk indicators: solvency ratio, liquidity ratio, NPA ratio.
- Business growth: an increase in the volume of commercial and foreign trade openings, which highlights the growth of the business and the good commercial relationship that the Entity maintains with counterparties.
- The entry into force of the new Bank of Spain Circular 4/2017 of 27 November, with the aim of adapting IFRS 9, the main impact of which for the Bank is the increase in the amount of generic provisions.

4. Structure of Balance Sheet and Results

The main aggregates of BMCE's balance sheet and profit and loss account in relation to its core business are set out below:

4.1. Structure of the balance sheet

ASSETS	31/12/2018	31/12/2017
Cash, Central Bank, Dep. view	21%	16%
Debt securities	20%	18%
Loans and advances to credit institutions	39%	43%
Loans and advances to Clients	19%	22%
Property, plant and equipment and other	1%	1%
Total Balance	**100%**	**100%**

NET EQUITY AND LIABILITIES	31/12/2018	31/12/2017
Deposits Ent. of credit and Central Banks	84%	77%
Customer deposits	2%	3%
Other Liabilities and Other	4%	9%
Own Funds	10%	11%
Total Balance	**100%**	**100%**

ASSETS (in thousands of euros)

	31/12/2018	31/12/2017	Variation
Cash, Central Bank, Dep. view	**165.673**	**106.039**	**56%**
Financial assets at fair value	**75**	**284**	**-74%**
Financial assets at amortised cost	**615.222**	**545.658**	**13%**
- Debt securities	153.177	116.866	31%
- Loans and advances	462.045	428.792	8%
Credit Institutions	*309.227*	*284.273*	*9%*
Clientele	*152.818*	*144.519*	*6%*
Investments in joint ventures and associates	**1.063**	**1.063**	**0%**
Tangible assets	**2.498**	**2.478**	**1%**
- Property, plant and equipment	2.498	2.478	1%
Tax assets	**278**	**6**	**4533%**
Other assets	**195**	**220**	**-11%**
TOTAL ASSETS	**785.005**	**655.748**	**20%**

LIABILITIES (in thousands of euros)

	31/12/2018	31/12/2017	Variation
Deposits	**674.857**	**524.566**	**29%**
- Central Banks	*12.000*	*12.500*	-4%
- Credit Institutions	*648.055*	*494.459*	31%
- Clientele	*14.802*	*17.607*	-16%
Other Financial Liabilities	**28.815**	**57.019**	**-49%**
Provisions	**1.201**	**542**	**122%**
Tax liabilities	**-**	**381**	**-100%**
Other liabilities	**424**	**210**	**102%**
TOTAL LIABILITIES	**705.297**	**582.718**	**21%**

NET EQUITY (in thousands of euros)

	31/12/2018	31/12/2017	Variation
Own Funds	**79.708**	**73.030**	**9%**
- Capital	40.635	40.635	0%
- Share premium	3.198	3.198	0%
- Other reserves	27.973	23.838	17%
- Profit for the year	7.902	5.359	47%
TOTAL EQUITY	**79.708**	**73.030**	**9%**
TOTAL EQUITY AND LIABILITIES	**785.005**	**655.748**	**20%**

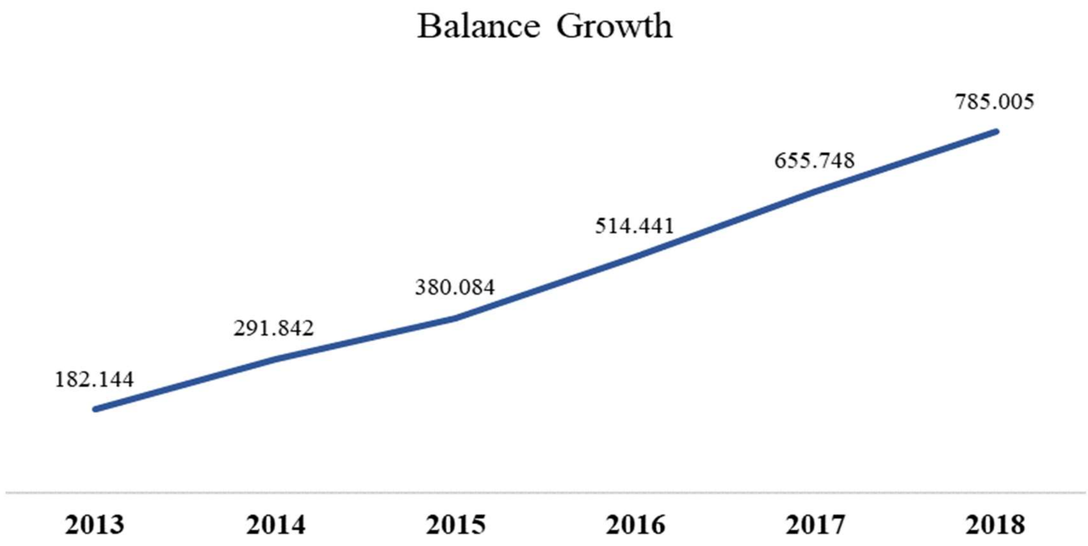
MEMORANDA ACCOUNTS

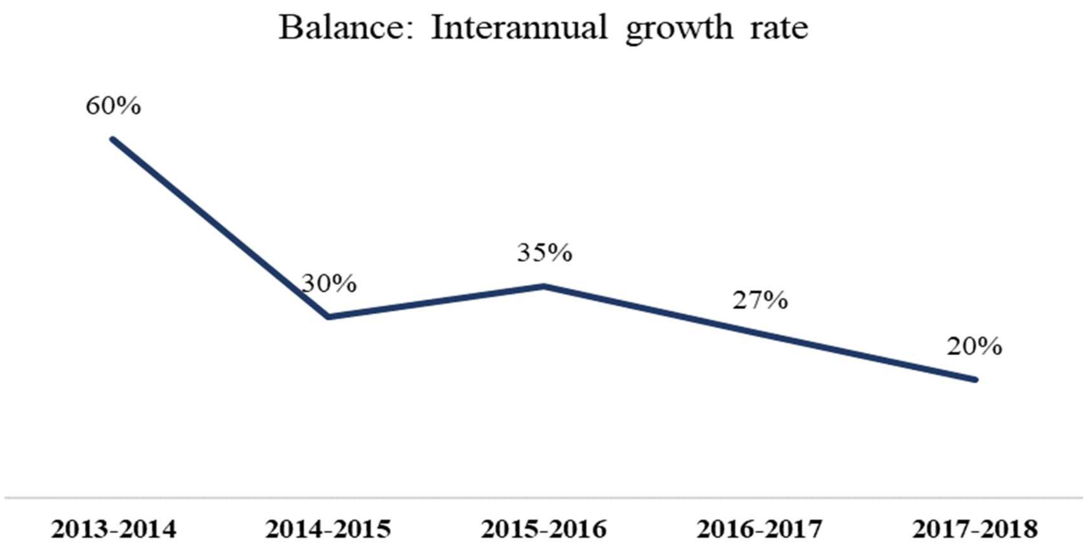
	31/12/2018	31/12/2017	Variation
Guarantees granted	**43.506**	**75.615**	-42%
- Guarantees and sureties	12.246	14.722	-17%
- Documentary credits	31.260	60.893	-49%
Available from third parties	**27.935**	**39.417**	**-29%**
- By credit institutions	4.000	39.417	-90%
- By other resident sectors	23.929	-	-
- By other non-resident sectors	6	-	-

Relevant data from the activity balance:

- 129 million, 20% over the previous year, the highest figure in the Entity's entire trajectory.
- The main growth is in exposures to credit institutions.
- Lending to financial institutions, with the exception of treasury and interbank market operations, declined slightly while lending to other non-financial institutions increased positively.

- 36 million due to the Entity's investment in High Credit Quality Fixed Income Assets (HQLA), with the objective of maintaining an adequate liquidity cushion to comply with the regulator's requirements with respect to the liquidity coverage ratio (LCR).
- On the liabilities side, deposits from credit institutions increased.





4.2. Profit and Loss Account

PROFIT AND LOSS ACCOUNT *(in thousands of euros)*

	31.12.2018	31.12.2017	Variation
Interest income	16.384	12.131	35%
Interest expense	4.355	2.853	53%
INTEREST MARGIN	***12.029***	***9.278***	***30%***
Commission income	6.674	6.099	9%
Commission expenses	144	134	8%
Gain or loss on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	135	1.136	-88%
Gains or (-) losses on non-trading financial assets mandatorily measured at fair value through profit or loss, net	(252)	-	-100%
Net exchange differences	737	724	2%
Other operating income	244	466	-48%
Other operating expenses	8	2	300%
GROSS MARGIN	**19.415**	**17.567**	**12%**
ADMINISTRATIVE EXPENSES	5.169	5.572	-7%
Staff costs	*2.983*	*3.404*	-12%
Other management expenses	*2.186*	*2.168*	1%
Amortization	66	82	-20%
Provisions	570	371	54%
Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss or (-) net gain on change)	2.429	3.949	32%
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**11.181**	**7.593**	**47%**
Corporate income tax	3.279	2.234	47%
PROFIT FOR THE YEAR	**7.902**	**5.359**	**47%**

In line with the most relevant aspects of the Balance Sheet mentioned above, the data in the Profit and Loss Account for fiscal year 2018 show the increase in business that the Entity has experienced in this period.

The interest margin in 2018 increased 30% with respect to the previous year, while the expense to interest income ratio was 26.5%, 13% higher than the previous year. This was mainly due to the increase in the cost of financing in US dollars.

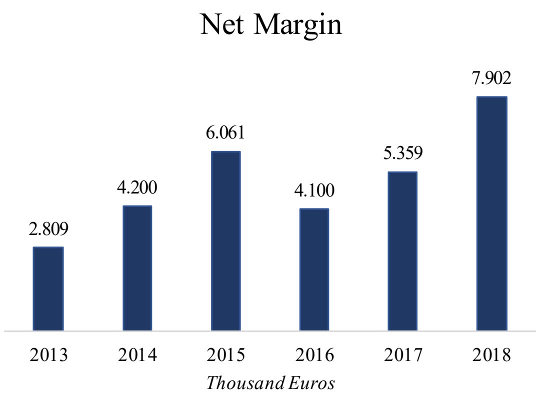
The gross margin increased as a result mainly due to the increase in interest rates. It should be noted that in 2017 there were exceptional financial transactions that did not occur in 2018.

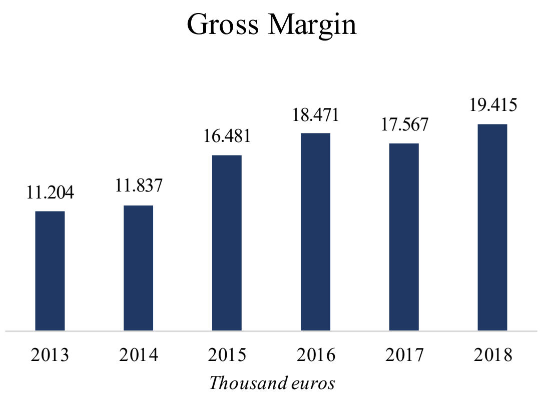
Operating expenses have remained very similar, which shows a greater efficiency of the Entity in this year, which has produced an increase in the result in absolute terms (before provision, impairment and taxes) of 19%, higher than the gross margin.

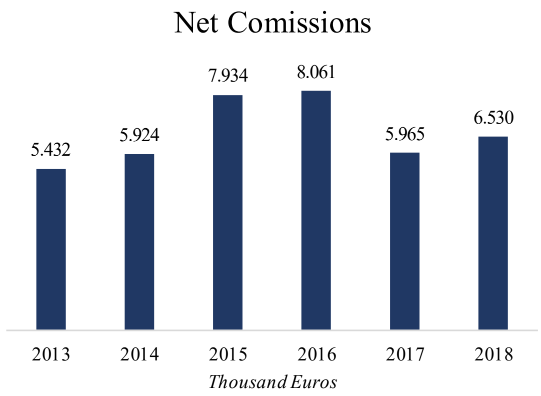
During the financial year, the Entity has set aside provisions amounting to 3 million, a reduction of 16% with respect to the previous year. These provisions were lower as a result of lower non-performing loans.

All of the above has led to a 47% increase in net income, the highest result of the Entity.

The following graph shows the evolution of the Entity's Profit for the last five years. These data show all that has been said above in relation to the good results of the Entity:







4.3. Management indicators

MANAGEMENT INDICATORS (in thousands of euros)	31/12/2017	31/12/2018	Variation
Operating margin	67,82%	73,37%	8%
CET 1	18,93%	21,01%	11%
Return of Equity (ROE)	7,9%	10,43%	32%
Return of Assets (ROA)	0,90%	1,14%	27%
Leverage	10,58%	9,91%	-6%
Liquidity Coverage Ratio	122,5%	130,2%	6%
Commissions / Gross Margin	33,96%	33,20%	-2%

The Entity has managed to increase its solvency with an increase in assets, mainly due to the decrease in the weighting of credit risk, also achieving an increase in the operating margin.

The higher percentage increase in assets with respect to net equity meant that ROE increased 32% to 10.43%; this increase is reflected in greater leverage.

The Entity has obtained higher ROE by increasing its assets and financial margin, all of which has resulted in lower capital consumption.

4.4. Comparison of the result with the forecasts for 2018:

BALANCE SHEET 2018

	Expected	Completed	Realized
Total Assets	**800.055**	**785.005**	**98%**
Loans to banks and cash (net)	386.664	474.900	123%
Loans to customers	267.108	152.818	57%
HTM portfolio	141.550	153.177	108%
Equity participation	1.063	1.063	100%
Fixed assets	2.537	2.498	98%
Others	1.134	549	48%
Total Liabilities	**800.055**	**785.005**	**98%**
Deposits from banks	616.194	660.055	107%
Due to customers	41.260	14.802	36%
Other liabilities	60.261	30.440	51%
Reservations	73.760	71.806	97%
Net Result	8.579	7.902	92%
Dividends	-	-	-
Off Balance Sheet	120.000	110.762	92%

The balance sheet forecast at the beginning of the year has been achieved by 98%.
The greatest growth, higher than expected, was in loans to financial institutions. This is due to the fact that in the national market, where the Entity has exposure to companies, credit in Euro

currency offered very reduced margins, so it was decided to allocate the credit to financial and sovereign entities.

On the liabilities side, our main source of financing comes from financial institutions, specifically 84% of total financing. Like lending to customers, the interest rate environment, particularly low in the Euro currency, prevented the capture of customer funds.

INCOME STATEMENT 2018

	Expected	Completed	Realized
Interest received	14.595	16.384	112%
Interest paid on borrowings	3.481	4.355	125%
Commissions (net)	8.867	6.530	74%
Fx gains	935	737	79%
Other	100	0	0%
Gross Margin	**21.016**	**19.760**	**94%**
Expenses	6.118	5.169	84%
Amortization	65	82	126%
Provisions	2.965	3.251	110%
Exceptional Profit/Loss	500	0	0%
Profit before tax	12.433	11.181	90%
Tax	3.854	3.279	85%
Net profit	**8.579**	**7.902**	**92%**

The income statement shows higher than expected interest growth. This is due to the increase in the dollar interest rate: it should be noted that the 6-month LIBOR closed the year at 2.87% (compared to 2017, this was 1.84%); this increase also led to a higher than expected increase in the cost of financing. However, net interest income was 26.5%, compared to the expected 24%.

In general terms, both the gross margin and the net result have reached almost 90%.

5. Activity analysis

PERCENTABLE INTEREST (in thousands of euros)

	31/12/2017	31/12/2018	Variation
Financial institutions	**4.305**	**7.218**	**68%**
Term accounts	4.078	6.640	63%
Other accounts	227	578	155%
Non-Financial Entities	**4.829**	**5.235**	**8%**
Residents			
Bills of exchange and advances	181	136	-25%
Financial effects	6	6	0%
Personal Loans	468	416	-11%
Credit Accounts	440	431	-2%
Overdrafts in c/c. and overdrafts in c/cto.	3	1	-67%
Other debit balances	1	1	0%
Non-resident public administrations	1.572	1.866	19%
Other non-resident dryers	2.159	2.376	**10%**
Interest on bonds and securities	**2.997**	**3.931**	**31%**
TOTAL INTEREST AND SIMILAR INCOME	**12.131**	**16.384**	**35%**

Interest income increased by 35% with respect to 2017, while net income (taking into account interest paid) increased by 30% to 12 million euros.

The operations that generate the most income are the operations with credit institutions for financing commercial bills and advances. This item, which represents 23% of the total interest income generated in 2018 (see table "Breakdown of Perceived Interest, below), includes the following products:

- **Foreign Trade Operations**: Import and export documentary credits, Stand-by, issuance of guarantees, as well as export collection management.
- **International Financing**: Financing of foreign trade operations, export buyer credit and forfaiting operations, discount and purchase of guaranteed bills of exchange.

PERCENTABLE INTERESTS (in thousands of euros)

	31/12/2018	of the total
Deposits Credit institutions	**7.218**	**44%**
Bills of exchange and advances	3.710	23%
Commercial credit financial institutions	622	4%
Borrowed deposits	1.500	9%
Syndicated loan to banks	808	5%
Correspondent accounts	578	4%
Credit to Non-Financial Entities	**5.235**	**32%**
Bills of exchange and advances	2.242	14%
Financial effects	6	0%
Commercial Loan	289	2%
Credit Accounts	431	3%
Overdrafts in c/c. and overdrafts in c/cto.	3	0%
Syndicated Loans	2.264	14%
Debt instruments	**3.931**	**24%**
TOTAL INTEREST AND SIMILAR INCOME	**16.384**	**100%**

The Entity has as higher income products received from financial institutions, which come mostly from foreign trade operations, where the Entity has its full advantage. Operations with companies and sovereigns account for 33% of revenues.

With respect to non-financial entities, BMCE obtains significant revenues from its foreign trade operations (commercial bills and advances: forfaiting, export and/or import prefinancing, etc.) and syndicated loans.

5.1. Activity segmentation by geographic market:

The regions with the greatest exposure in the Entity's portfolio are Europe and Africa, followed by the Middle East. BMCE Bank International has a strong competitive advantage in the African market, with a wide range of specialised export finance products and an excellent commercial relationship of over 25 years with the main banks in the region.

In addition to the commercial and export financing operations that the Entity carries out on the African continent, a substantial part of the business consists of financing in the corporate area and credit entities in all the aforementioned regions.

Chart: Portfolio exposure at 31/12/2018:

In 2018, the Entity increased its exposure in countries with *Investment Grade* credit quality (78% of total exposure in 2018 compared to 71% in 2017). As of December 31, 2017 and 2018, the segmentation of the portfolio in relation to the credit rating of the Exposure Country is as follows:

Qualification Country	**2017**	**of total**	**2018**	**of total**
AAA+ to AAA-	87.364	11%	90.562	11%
AA+ to AA-	75.106	10%	65.572	8%
A+ to A-	0	0%	356.461	41%
BBB+ to BBB-	391.658	50%	166.948	19%
BB+ to BB-	60.621	8%	47.559	6%
B+ to B-	71.852	9%	81.813	9%
CCC + to CCC-	32.973	4%	11.925	1%
No rating	57.178	7%	40.813	5%
Total exposure	**776.753**	**100%**	**861.652**	**100%**

In thousands of euros

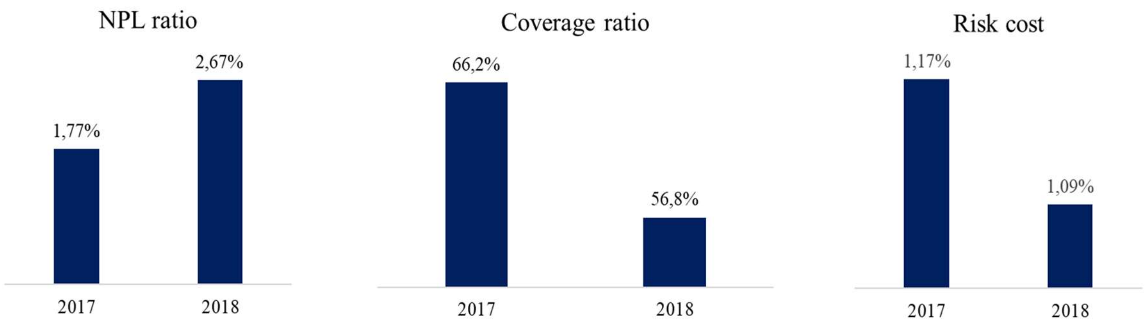
6. **Risk Management**

It should be noted that, during the year, the Entity has carried out an ambitious process of approval of risk policies in all areas, in collaboration with a prestigious consultancy firm, which will allow for better management and control of risks, as well as information on them.

As for the delinquency rate, the following is detailed:

- Increase in the non-performing loan ratio of 1%; this is due to the entry of two transactions as doubtful, one of them significant.
- The coverage rate is reduced with respect to 2017, however, this requires further explanation. The significant operation that has become doubtful has a provision percentage of 26.5% as a consequence of the recoverability calculation for the agreement to dispose of the asset; as there are a reduced number of nonperforming loans, the overture rate has been reduced. Excluding this exposure and the total provisions for the other exposures, the Entity has a coverage rate of around 68%, an increase on the previous year.

Chart: Credit Risk Management Indicators



7. Final Considerations

1. Solid results, supported by recurring revenues.
2. Sustained and stable growth.
3. Good management, with increases in profitability and efficiency in the consumption of resources.
4. Success of the business model and strategy.
5. Compliance with regulatory key figures with a comfortable margin.
6. Solid solvency position.
7. Effort to improve risk management and control.
8. High degree of compliance with the objectives.
9. Excellent expectations.

8. Definitions

Ordinary level capital (CET 1): In the case of BMCE, includes: capital, reserves, net attributable profit.
Cost of risk **(CoR)**: Known by its English terminology "CoR - cost of risk", this is the quotient of total provisions for insolvencies over total loans to customers.
Investment grade: A credit rating category that encompasses several types of ratings with a lower probability of bankruptcy than the non-investment grade category. The investment grade categories established are: very high payment capacity (triple A), high payment capacity (double A), good payment capacity (A) and adequate payment capacity (BBB), and there may be medium/long term risks in this category.
NPL ratio: This quotient relates the total of the exposures that the Entity has with clients in a situation of non-payment with the total of credits that it has granted.
Coverage ratio: expresses the level of protection enjoyed by financial institutions against unpaid loans in their respective portfolios. In particular, it refers to the percentage of non-performing loans that are covered by provisions made by banks. In order to calculate it, the formula is used that relates the volume of provision funds that a bank has to the volume of doubtful debts.

PREPARATION OF THE ANNUAL ACCOUNTS AND THE ANNUAL REPORT

The Board of Directors of BMCE BANK INTERNATIONAL, S.A.U., at its meeting held on March 22, 2019, unanimously approved the preparation of the Annual Accounts for fiscal year 2018, which comprise the balance sheet as of December 31, 2018, and the profit and loss account, the statement of changes in net worth, the cash flow statement and the report corresponding to the fiscal year ended on that date and the Management Report for the fiscal year ended December 31, 2018. Likewise, the members of the Board of Directors declare that, to the best of their knowledge, the Annual Accounts for 2018 have been prepared in accordance with the applicable accounting principles, give a true and fair view of the net worth, financial position and results of BMCE BANK INTERNATIONAL, S.A.U. and that the Management Report includes a true and fair analysis of the evolution and results of the business and of the position of BMCE BANK INTERNATIONAL, S.A.U., together with a description of the main risks and uncertainties they face.

D. Mohamed Agoumi
Counsellor

D. Brahim Benjelloun-Touimi
Counsellor

D. Azeddinne Guessous
Counsellor

D. Mohamed Benchaib
Counsellor

Mr. Jerónimo Páez López
Counsellor

Ms. Carme Hortalá Vallvé
Counsellor

Mr. Justo Luis Salcedo de Mingo
Counsellor