Abanca Corporación Bancaria, S.A.

Annual Accounts
31 December 2016

Directors' Report
2016

(With Independent Auditor's Report Thereon)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
Paseo de la Castellana, 259 C
28046 Madrid

Independent Auditor's Report on the Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of
Abanca Corporación Bancaria, S.A.

Report on the Annual Accounts

We have audited the accompanying annual accounts of ABANCA Corporación Bancaria, S.A. (the "Bank"), which comprise the balance sheet at 31 December 2016 and the income statement, statement of recognised income and expense, statement of changes in equity and cash flow statement for the year then ended, and notes.

Directors' Responsibility for the Annual Accounts

The Bank's Directors are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of ABANCA Corporación Bancaria, S.A. in accordance with the financial reporting framework applicable to the entity in Spain, specified in note 1.4 to the accompanying annual accounts, and for such internal control that they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the annual accounts by the Bank's Directors in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts taken as a whole.

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

Opinion

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of ABANCA Corporación Bancaria, S.A. at 31 December 2016 and of their financial performance and cash flows for the year then ended in accordance with the applicable financial reporting framework and, in particular, with the accounting policies and criteria set forth therein.

Report on Other Legal and Regulatory Requirements

The accompanying directors' report for 2016 contains such explanations as the Directors of ABANCA Corporación Bancaria consider relevant to the situation of the Bank, its business performance and other matters, and is not an integral part of the annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the annual accounts for 2016. Our work as auditors is limited to the verification of the directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of ABANCA Corporación Bancaria, S.A.

KPMG Auditores, S.L.

(*Signed on original in Spanish*)

Pedro González Millán

7 March 2017

ABANCA Corporación Bancaria, S.A.

BALANCE SHEETS AT 31 DECEMBER 2016 AND 2015
(Thousands of Euros)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

ASSETS	Note	2016	2015 (*)
Cash, cash balances with central banks and other demand deposits	5	496,120	698,977
Financial assets held for trading			
Derivatives	10	141,046	149,705
Debt securities	7	-	97,100
		141,046	246,805
Available-for-sale financial assets			
Equity instruments	8	108,430	142,880
Debt securities	7	5,617,485	7,867,731
		5,725,915	8,010,611
Loans and receivables			
Debt securities	7	3,734,502	3,920,400
Loans and advances			
Credit institutions	6	301,675	746,995
Other debtors	9	27,941,196	26,797,325
		31,977,373	31,464,720
Held-to-maturity investments	7	-	-
Derivatives - hedge accounting	10	57,919	19,810
Investments in subsidiaries, joint ventures and associates	12		
Subsidiaries		2,385,116	2,477,469
Associates		4,668	3,417
		2,389,784	2,480,886
Tangible assets	13		
Fixed assets			
For own use		816,756	837,229
Investment property		177,477	146,086
		994,233	983,315
Intangible assets	14		
Goodwill		-	-
Other intangible assets		10,369	5,903
		10,369	5,903
Tax assets	26		
Current tax assets		91,365	6,980
Deferred tax assets		2,700,419	2,627,106
		2,791,784	2,634,086
Other assets			
Insurance contracts linked to pensions	15	150,926	153,836
Inventories		1,409	-
Other assets		122,591	128,347
		274,926	282,183
Non-current assets and disposal groups classified as held for sale	11	158,342	170,509
TOTAL ASSETS		45,017,811	46,997,805
MEMORANDUM ITEM: OFF-BALANCE SHEET EXPOSURES	27		
Guarantees extended		1,198,131	1,179,527
Contingent commitments given		4,580,120	3,894,266

LIABILITIES AND EQUITY	Note	2016	2015 (*)
Financial liabilities held for trading			
Derivatives	10	116,623	132,099
		116,623	132,099
Financial liabilities at amortised cost			
Deposits			
Central banks	16	1,700,000	4,720,633
Credit institutions	16	2,277,777	2,254,809
Other creditors	17	35,075,008	33,879,992
Debt securities issued	18	812,246	1,064,638
Other financial liabilities	20	117,643	111,917
Memorandum item: subordinated liabilities	19	*8,860*	*9,321*
		39,982,674	42,031,989
Derivatives - hedge accounting	10	149,478	77,296
Provisions	21		
Pensions and other post-employment defined benefit obligations		190,596	223,761
Outstanding legal proceedings and litigation in relation to taxes		2,614	4,803
Commitments and guarantees extended		79,381	98,023
Other provisions		246,328	157,078
		518,919	483,665
Tax liabilities	26		
Current tax liabilities		-	-
Deferred tax liabilities		35,495	43,142
		35,495	43,142
Other liabilities	22	221,659	197,769
TOTAL LIABILITIES		41,024,848	42,965,960
EQUITY			
Shareholders' equity			
Capital			
Paid-in capital	25	2,453,657	2,453,657
Share premium	24	433,901	433,901
Retained earnings	24	1,099,413	1,096,072
Treasury shares		(225,026)	(223,900)
Profit for the year		315,744	318,822
Interim dividend		-	-
		4,077,689	4,078,552
Accumulated other comprehensive income	23		
Items that will not be reclassified to profit or loss			
Actuarial gains or losses on defined benefit pension plans		1,789	4,350
Items that may be reclassified to profit or loss			
Translation of foreign currency		-	-
Hedging derivatives. Cash flow hedges (effective portion)		(44,638)	(21,857)
Available-for-sale financial assets		(41,877)	(29,200)
Debt instruments		(41,014)	(26,002)
Equity instruments		(863)	(3,198)
Non-current assets and disposal groups classified as held for sale		-	-
		(84,726)	(46,707)
TOTAL EQUITY		3,992,963	4,031,845
TOTAL LIABILITIES AND EQUITY		45,017,811	46,997,805

(*) Presented solely and exclusively for comparison purposes. See note 1.4.

Notes 1 to 49 and Appendices I to IV form an integral part of the annual accounts for 2016.

ABANCA Corporación Bancaria, S.A.

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Thousands of Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Note	Income / (Expenses) 2016	2015 (*)
Interest income	28	772,332	909,612
Interest expense	29	(401,067)	(523,651)
INTEREST MARGIN		371,265	385,961
Dividend income	30	76,368	52,628
Fee and commission income	31	148,740	145,366
Fee and commission expense	32	(16,763)	(16,253)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	33	46,561	320,835
Gains or losses on financial assets and liabilities held for trading, net	33	9,217	(3)
Gains or losses on hedge accounting, net	33	(2,326)	(587)
Exchange differences, net		8,633	9,953
Other operating income	34	24,853	50,399
Other operating expenses	37	(90,953)	(80,832)
GROSS MARGIN		575,595	867,467
Administrative expenses		(417,416)	(490,966)
Personnel expenses	35	(266,410)	(288,649)
Other administrative expenses	36	(151,006)	(202,317)
Depreciation and amortisation	13 and 14	(30,898)	(30,506)
Provisions or reversals of provisions	21	8,512	(4,809)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss		149,788	(294,495)
Available-for-sale financial assets		-	(10,264)
Loans and receivables	9	149,788	(284,231)
RESULTS FROM OPERATING ACTIVITIES		285,581	46,691
Impairment or reversal of impairment on investments in subsidiaries, joint ventures or associates	12	3,753	306,688
Impairment or reversal of impairment on non-financial assets		(4,363)	(12,764)
Tangible assets	13	(4,363)	(12,579)
Other		-	(185)
Gains or losses on derecognition of non-financial assets and investments, net	38	80,984	93,147
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	11	1,725	15,216
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		367,680	448,978
Income tax expense or income related to profit or loss from continuing operations	26	(51,936)	(130,156)
PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS		315,744	318,822
Profit or loss after tax from discontinued operations		-	-
PROFIT FOR THE YEAR		315,744	318,822

EARNINGS PER SHARE (Euros)		31.12.2016	31.12.2015
Basic	3	0.1410	0.1414
Diluted		0.1410	0.1414

(*) Presented solely and exclusively for comparison purposes. See note 1.4.

Notes 1 to 49 and Appendices I to IV form an integral part of the annual accounts for 2016.

ABANCA Corporación Bancaria, S.A.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE
FOR THE YEARS ENDED
31 DECEMBER 2016 AND 2015
(Thousands of Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	2016	2015 (*)
PROFIT FOR THE YEAR	315,744	318,822
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss		
Actuarial gains/(losses) on defined benefit pension plans	(3,659)	21,523
Income tax on items that will not be reclassified	1,098	(6,457)
Items that may be reclassified to profit or loss		
Translation of foreign currency	-	-
Exchange gains/(losses) recognised in equity		-
Cash flow hedges (effective portion)	(32,544)	32,300
Valuation gains/(losses) recognised in equity	(32,544)	32,300
Available-for-sale financial assets	(18,101)	(59,700)
Valuation gains/(losses) recognised in equity	28,849	(22,113)
Amounts transferred to profit or loss	(46,950)	(37,587)
Other recognised income and expense		-
Income tax on items that may be reclassified to profit or loss	15,187	8,248
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	277,725	314,736

(*) Presented solely and exclusively for comparison purposes. See note 1.4.

Notes 1 to 49 and Appendices I to IV form an integral part of the annual accounts for 2016.

ABANCA Corporación Bancaria, S.A.

STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 (*)

(Thousands of Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Capital	Share premium	Retained earnings	Other reserves	(-) Treasury shares	Profit for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
Balance at 31 December 2014	2,453,657	433,901	(102,591)	-	(160,953)	1,198,663	-	(42,621)	3,780,056
Effects of correction of errors	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-
Opening balance	2,453,657	433,901	(102,591)	-	(160,953)	1,198,663	-	(42,621)	3,780,056
Total comprehensive income for the period	-	-	-	-		318,822	-	(4,086)	314,736
Other changes in equity	-	-	1,198,663	-	(62,947)	(1,198,663)	-	-	(62,947)
Purchase of treasury shares	-	-	-	-	(62,947)	-	-	-	(62,947)
Transfers between equity line items	-	-	1,198,663	-	-	(1,198,663)	-	-	-
Increase or (decrease) in equity due to business combinations	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-
Other increases or (decreases) in equity	-	-			-	-	-	-	-
Balance at 31 December 2015	2,453,657	433,901	1,096,072	-	(223,900)	318,822	-	(46,707)	4,031,845
Effects of correction of errors	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-
Opening balance	2,453,657	433,901	1,096,072	-	(223,900)	318,822	-	(46,707)	4,031,845
Total comprehensive income for the period	-	-	-	-	-	315,744	-	(38,019)	277,725
Other changes in equity	-	-	3,341	-	(1,126)	(318,822)	-	-	(316,607)
Purchase of treasury shares	-	-	-	-	(1,126)	-	-	-	(1,126)
Transfers between equity line items	-	-	3,343	-	-	(3,343)	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-
Dividends (or shareholder remuneration)	-	-	-	-	-	(315,479)	-	-	(315,479)
Other increases or (decreases) in equity	-	-	(2)		-	-	-	-	(2)
Balance at 31 December 2016	2,453,657	433,901	1,099,413	-	(225,026)	315,744	-	(84,726)	3,992,963

(*) Presented solely and exclusively for comparison purposes. See note 1.4.

Notes 1 to 54 and Appendices I to VIII form an integral part of the annual accounts for 2016.

ABANCA Corporación Bancaria, S.A.

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Thousands of Euros)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	2016	2015 (*)
A) CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	(158,534)	(10,094,253)
1. Profit for the year	315,744	318,822
2. Adjustments to obtain cash flows from operating activities	2,410,364	2,338,537
(+) Depreciation and amortisation	30,898	30,506
(+/-) Other adjustments	2,379,466	2,308,031
3. Net increase/(decrease) in operating assets	(871,440)	(5,519,449)
(+/-) Financial assets held for trading	(74,943)	(216,417)
(+/-) Financial assets designated at fair value through profit or loss		-
(+/-) Available-for-sale financial assets	(755,820)	(5,964,463)
(+/-) Loans and receivables	17,661	327,784
(+/-) Other operating assets	(58,338)	333,647
4. Net increase/(decrease) in operating liabilities	(1,932,600)	(7,140,072)
(+/-) Financial liabilities held for trading	(15,476)	(52,381)
(+/-) Financial liabilities designated at fair value through profit or loss	-	-
(+/-) Financial liabilities at amortised cost	(2,049,315)	(6,925,620)
(+/-) Other operating liabilities	132,191	(162,071)
5. Income tax received/(paid)	(80,602)	(92,091)
B) CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	111,279	10,099,296
1. Payments:	(40,622)	(619,879)
(-) Tangible assets	(33,570)	(375,272)
(-) Intangible assets	(6,582)	(4,609)
(-) Investments in subsidiaries, joint ventures and associates	(443)	(239,822)
(-) Other business units	-	-
(-) Non-current assets and liabilities classified as held for sale	(27)	(176)
(-) Held-to-maturity investments	-	-
(-) Other payments related to investing activities	-	-
2. Receipts:	151,901	10,719,175
(+) Tangible assets	-	-
(+) Intangible assets	-	-
(+) Investments in subsidiaries, joint ventures and associates	70,532	422,840
(+) Other business units	-	-
(+) Non-current assets and liabilities classified as held for sale	-	78,052
(+) Held-to-maturity investments	-	10,218,283
(+) Other receipts related to investing activities	81,369	-
C) CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	(2,771)	(68,947)
1. Payments:	(2,771)	(68,947)
(-) Dividends	-	-
(-) Subordinated liabilities	(1,645)	(6,000)
(-) Redemption of own equity instruments	-	-
(-) Acquisition of own equity instruments	(1,126)	(62,947)
(-) Other payments related to financing activities	-	-
2. Receipts:	-	-
(+) Subordinated liabilities	-	-
(+) Issuance of own equity instruments	-	-
(+) Disposal of own equity instruments	-	-
(+) Other receipts related to financing activities	-	-
D) EFFECT OF EXCHANGE RATE FLUCTUATIONS		
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	(50,026)	(63,904)
F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	429,839	493,743
G) CASH AND CASH EQUIVALENTS AT YEAR END (E+F)	379,813	429,839

COMPOSITION OF CASH AND CASH EQUIVALENTS AT YEAR END	2016	2015
(+) Cash	142,777	156,250
(+) Cash equivalents in central banks	237,036	273,589
(+) Other financial assets	-	-
(-) Less: bank overdrafts repayable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT YEAR END	379,813	429,839

(*) Presented solely and exclusively for comparison purposes. See note 1.4.

Notes 1 to 49 and Appendices I to IV form an integral part of the annual accounts for 2016.

1. Introduction, Basis of Presentation and Other Information

1.1. Introduction

ABANCA Corporación Bancaria, S.A. (hereinafter "ABANCA", the "Bank" or the "Entity") is a private credit and savings institution whose corporate purpose is the performance of all types of activities, operations and services befitting the banking business in general or directly or indirectly related thereto and which are permitted through current legislation. These include the provision of investment and ancillary services and the performance of insurance brokerage activities, as well as the acquisition, holding, transacting with and disposal of all types of securities.

The Bank was incorporated on 14 September 2011 as a public limited company in Spain, for an open-ended period, as a result of the merger of Caixa de Aforros de Vigo, Ourense e Pontevedra and Caja de Ahorros de Galicia (hereinafter "Novacaixagalicia") in 2010 and the subsequent spin-off, in 2011, of the financial activity carried out by Novacaixagalicia up until that time. On 1 December 2014, the Bank's Extraordinary General Meeting of Shareholders approved the adoption of the corporate name ABANCA Corporación Bancaria, S.A. (formerly known as NCG Banco, S.A.) and the consequential amendment to its articles of association.

For the performance of its activity, at 31 December 2016 the Bank has 530 operating branches in the Autonomous Region of Galicia (540 at 31 December 2015), 125 branches in the rest of Spain (127 at 31 December 2015), 4 in Portugal (4 at 31 December 2015) and 1 in Switzerland (1 at 31 December 2015), as well as representative offices in Brazil, Mexico, Panama, Venezuela, Switzerland, Germany, Great Britain and France.

Additionally, the Bank owns equity interests in several companies (subsidiaries and associates) performing industrial and commercial activities, and which, together with the Bank, form the ABANCA Corporación Bancaria Group (hereinafter, the "Group" or "ABANCA Group"). As a result, the Bank is required to prepare the consolidated financial statements of the Group in addition to its own individual financial statements.

Furthermore, the Bank is part of ABANCA Holding Group, the parent company of which is ABANCA Holding Financiero, S.A.. The Parent Company has its registered address and fiscal domicile in Madrid, at number 77 calle Claudio Coello, 3rd floor.

On 11 February 2015 the boards of directors of ABANCA Holding Hispania, S.A. and ABANCA Holding Financiero, S.A. agreed to approve the common draft terms for the merger of the former with and into the latter, the former being wound up and dissolved without liquidation, and all of its assets and liabilities being transferred en bloc to the latter, which thereby acquired, by universal succession, all of the assets and liabilities of ABANCA Holding Hispania, S.A. The merger has been drafted on the basis of the balance sheets of the two companies at 31 December 2014, and with effect for accounting purposes as of 1 January 2015. The common draft terms of the merger were filed at the Madrid Mercantile Registry on 17 April 2015.

The Bank is subject to the rules and regulations applicable to financial institutions operating in Spain. The management and use of external funding that financial institutions obtain from customers, as well as other aspects of their economic and financial activity, are subject to certain legal standards that regulate their activity. The Bank is part of the Deposit Guarantee Fund.

The Company has its registered office in Betanzos, A Coruña, at number 2 calle Cantón Claudino Pita. The articles of association and other public information about the Group are available both on the official website of the Group (www.abanca.com) and at the registered office.

1.2. Sale of NCG Banco

On 18 December 2013, having studied the bids received in the process to sell 88.33% of the Bank, the Governing Committee of the FROB agreed to award the Bank to the Spanish company Banesco Holding Financiero 2, S.L.U. (currently ABANCA Holding Financiero, S.A.). The bid totalled €1,003 million, and this figure includes the two portfolios of non-performing loans encompassed in the sale process. Of the amount tendered, 40% was paid on completion of the sale transaction and the remaining 60% would be paid in successive instalments through to 2018. The awarding of the Bank, the resolution mandate set out in the Restructuring Plan of the Bank approved by the Spanish and European authorities was completed.

The FROB undertook to compensate 85% of the amounts payable by the Bank, up to a ceiling set out in the sale-purchase agreement, for each of the following items:

- The price adjustments set out in certain points of the agreement for the transfer of assets of NCG Banco to the Sareb (net of adjustments in favour of the Bank). In this case, the compensation would be 100% of the net adjustments, rather than 85% as mentioned above.

- Tax risks stemming from the transfer of assets to Sareb as a result of the VAT exemption to the transactions.

- Any amounts that the Bank is obliged to pay to certain insurance companies in view of arbitration proceedings in which the Bank may be involved or due to early termination of agreements stemming from a change of control at the Bank following the sale.

- The liability of the Bank arising from the marketing of hybrid products as determined in a final ruling, to the extent the aggregated and cumulative amount of that liability exceeds the provision recognised in 2013.

- The liability of the Bank arising from claims relating to the marketing of mortgage loans containing floor clauses and granted as from October 2008.

- Liability arising from the arrangement of interest rate hedge agreements tied to mortgage funding granted to families and self-employed persons.

Consequently, where applicable, the Bank has capitalised these guarantees under loans and receivables on the accompanying balance sheet, based on estimates and assumptions at the date on which these annual accounts were authorised for issue. The final amount that may be claimed from the FROB by virtue of these guarantees is calculated and recognised quarterly.

The agreement also stipulates a guarantee of being able to make use of deferred tax assets in the event that the new owner opts for a merger through absorption of the Bank and does not consider any asset protection scheme over any part of the Bank.

On 25 June 2014, once all of the legal requirements had been met and the corresponding approval from the competent national and international authorities obtained, the shares of the Bank held by the Fund for Orderly Bank Restructuring (FROB) and the Deposit Guarantee Fund (DGF), representing 88.33% of the share capital, were transferred to the successful bidder, the current ABANCA Holding Financiero S.A. The commitments undertaken by the FROB in the sale-purchase agreement of 18 December 2013 and referred to in previous paragraphs were upheld in the transfer.

As specified in note 1, the Bank forms part of the ABANCA Holding Group, which prepares separate consolidated annual accounts that included the ABANCA Corporación Bancaria Group for the first time in 2014.

On 20 June 2014, in addition to authorising the sale of the Bank, the European Commission approved the amendment to its Restructuring Plan and the application of a new Term Sheet to replace the previous one. The new Term Sheet considered the merger of ABANCA with Banco Etcheverría, S.A. (hereinafter Banco Etcheverría) also owned by ABANCA Holding Financiero S.L.U. (subsequently renamed ABANCA Holding Financiero, S.A.), to form a restructured credit institution focused on the Galicia and northern Spain market, and substantially amended the restrictions set out in the Term Sheet in force from November 2012 to June 2014. The most significant changes in the new Term Sheet were as follows:

- Reduction in the application period of the Term Sheet by one year, whereby its validity was brought forward to the end of 2016 instead of 2017 in the previous Term Sheet.

- It sets out two periods of application with clearly distinguished restrictions on the activity, depending on whether the merger with Banco Etcheverría goes ahead. The merger was approved in October 2014, and the restrictions set out below apply to the post-merger period.

- It enables greater growth, increasing the limits on the size of the balance sheet, which may be €3,000 million above the previous reference.

- It favours greater credit reinvigoration by removing restrictions from the gross credit volume of the Core and lifting the ban on the granting of credit by the Legacy branches in the previous Term Sheet. It also opens up the possibility of financing the developer up to a credit limit with the proviso of complying with a number of guarantees. All this within a framework of a suitable financing structure in the entity, wherein credit activity is backed by deposits.

- It standardises the activity of branches outside Galicia by opening up the possibility of attracting resources from customers and extending loans to the Legacy zone branches, providing they comply with certain global limitations on the Bank's overall business.

- Flexibility in the investee sale process, removing the annual sales calendar laid down in the previous Term Sheet, which has been replaced by a target carrying amount at 31 December 2016.

- It reduces the network adjustment, inasmuch as the previous Term Sheet set a maximum number of branches for the Core zone and the closure of the Legacy zone branches, merely leaving service points to manage the existing portfolio of assets, while the current Term Sheet raises the maximum number of branches at December 2016 and allows a percentage of the network to be located outside of the Core area.

- The structure adjustment is tied to the efficiency levels achieved by the Bank.

Through the Monitoring Trustee, the European Commission reviews compliance with the Bank's Restructuring Plan, and no relevant incidents have come to light to date with regard to compliance with the commitments undertaken. The Restructuring Plan drew to a close on 31 December 2016.

1.3. Merger with Banco Etcheverría

On 1 August 2014, the Boards of Directors of ABANCA and Banco Etcheverría approved the common draft terms for the merger of Banco Etcheverría with and into ABANCA, through a share swap and subsequent merger by absorption.

At their general meetings on 6 October 2014, the shareholders of ABANCA and Banco Etcheverría approved the merger of the two banks.

On 12 November 2014, the merger of Banco Etcheverría (the absorbed entity) with and into ABANCA (the absorbing entity) was filed at the Mercantile Registry, the former being wound up and dissolved without liquidation, and all of its assets and liabilities being transferred en bloc to the latter, which will thereby acquire, by universal succession, all of the assets and liabilities of Banco Etcheverría.

ABANCA simultaneously approved a share capital increase of €94,412 thousand, issuing new shares to be swapped with shares in the absorbed company, with a share premium of €9,441 thousand.

The purpose of the merger was to simplify the corporate, organisational and operational structure of the ABANCA Holding Group in Spain, permitting greater use of the Group's resources. The merger enabled the corporate and operational structure of the Group to be streamlined and simplified, by incorporating the administrative structures of the absorbed entity into the organisational structure of the absorbing entity, without altering its business capability. The merger will also enable greater benefit to be drawn from the Group's advantages and capabilities in Spain, in particular when designing solutions for customers and compiling the catalogue of products offered by the Bank.

ABANCA and Banco Etcheverría have belonged to the same Group since 25 June 2014, inasmuch as the same shareholder held a majority shareholding in both banks since that date. As such, for accounting purposes of the absorbing entity, the operations of Banco Etcheverría were considered to be carried out by that entity from the date on which it became subject to a majority shareholding by the same shareholder as Banco Etcheverría.

1.4. Bases of Presentation

The annual accounts for 2016 have been prepared on he basis on the Bank's accounting records and were approved for issue by the Board of Directors at the meeting held on 3 March 2017. The Bank's Annual Accounts for 2016 are presented in accordance with the provisions of the Spanish Code of Commerce and related mercantile legislation and of Bank of Spain Circular 4/2004 as amended, and other mandatory standards approved by the Bank of Spain, so as to fairly present the Bank's equity and financial position at 31 December 2016 and the results of its operations and cash flows for the year then ended. The Bank of Spain has recently published Circular 4/2016, of 27 April, amending Circular 4/2004 to reflect the latest developments in banking regulation, while remaining entirely compatible with the IFRS-EU accounting framework.

The annual accounts for 2016 are currently pending approval by the shareholders. However, the Board of Directors of the Bank considers that these annual accounts will be approved with no changes. The annual accounts for 2015 were approved by the Bank's shareholders at their Annual General Meeting held on 27 June 2016.

The main accounting principles and policies and measurement criteria applied in preparing the Bank's annual accounts for 2016 are stated in Note 2. All obligatory accounting principles and measurement criteria with a significant effect on the annual accounts have been applied.

1.4.1. Consolidated Annual Accounts

The Bank is the parent company of a group of subsidiaries engaged in different activities and that form, together with the Parent Company, the ABANCA Corporación Bancaria Group (hereinafter, the "Group"). Consequently, the Board of Directors of the Bank has also prepared the Group's consolidated annual accounts for 2016. Based on the contents of the above mentioned consolidated annual accounts, prepared in accordance with the International Financial Reporting Standards adopted by the European Union (hereinafter, "EU-IFRS") applicable as of 31 December 2016, considering the provisions of Bank of Spain Circular 4/2004 as amended, and in accordance with other provisions of the regulatory framework on financial reporting applicable to the Group, the consolidated assets and equity of ABANCA Corporación Bancaria Group at 31 December 2016 respectively amounted to €45,138,408 and €4,083,187 thousand, and net consolidated profit attributable to the Group at 31 December 2016 amounted to €333,613 thousand.

1.4.2. Comparative information

The Bank's annual accounts at 31 December 2016 have been prepared in accordance with the presentation formats stipulated by Bank of Spain Circular 5/2014, of 28 November, as amended, the purpose of which is to bring the content of the public financial information of credit institutions into line with the mandatory terminology and format for the financial statements required under European Union legislation applicable to credit institutions.

The information for 2015 included in these notes is presented solely for the purposes of comparison with the information for 2016 and, therefore, does not constitute the Bank 's annual accounts for 2015. To facilitate comprehension, the financial statements and the information for 2015 have been restated using the new formats referred to in the preceding paragraph. Presentation of the financial statements using these new formats does not have a significant impact with respect to the format applied in the annual accounts for the year ended 31 December 2015. Appendix IV hereto contains a reconciliation of line items of the balance sheet and the statement of profit or loss under the standards applied in the annual accounts for 2015 and under Bank of Spain Circular 5/2014, of 28 November, as amended, applied to these separate financial statements.

1.4.3. Obligatory accounting principles

The main accounting principles and policies and measurement criteria applied in preparing the Bank's annual accounts are stated in Note 2. All obligatory accounting principles and measurement criteria with a significant effect on the annual accounts have been applied.

1.5. Responsibility for information and for the estimates made

The information included in these annual accounts is the responsibility of the Bank's Directors.

The results for the reporting period and the determination of the Bank's equity are sensitive to the accounting principles and policies, measurement criteria and estimates used in preparing the annual accounts. These annual accounts contain certain estimates made by Senior Management of the Bank, which were later ratified by Directors, in order to quantify some of the assets, liabilities, income, expenses and commitments reported herein. These estimates basically refer to the following:

1. Impairment losses, recovery and fair value of certain assets (see Notes 6, 7, 8, 9, 11, 12, 13, 14, 26 and 42).

   In 2016 the Bank has applied the changes introduced by Bank of Spain Circular 4/2016, of 27 April, updating Circular 4/2004 to reflect the latest developments in banking regulation that had come into force on 1 October 2016. In accordance with the legislation applicable to the Bank, the Circular has been applied prospectively, inasmuch as it entails a change in accounting estimates. Application thereof entailed the reversal, as of 31 December 2016, of impairment losses on financial assets not measured at fair value through profit or loss amounting to approximately €100 million, and an increase in impaired assets by €146 million.

2. The assumptions used in the actuarial calculation of the liabilities and commitments for post-employment benefits and other long-term commitments with employees (see Notes 2.12 and 21).

3. The useful lives of tangible and intangible assets (Notes 2.14 and 2.15)

4. Provisions and contingent liabilities, which were estimated based on certain assumptions therein contained (see Note 21).

5. Provisions that may arise from legal claims in relation to the management of hybrid instruments and subordinated debt, and claims concerning the marketing of mortgage loans that include floor clauses (see Note 21).

6. The probability of certain losses which are inherent in the Bank's activity (see Note 21).

7. Recoverability of deferred tax assets (see Note 26).

These estimates are based on the best information available at the 2016 reporting date regarding the events analysed. However, future events may require these estimates to be substantially increased or decreased in subsequent years. In accordance with legislation in force, any changes in accounting estimates would be recognised prospectively in the corresponding statement of profit or loss.

1.6. Agency agreements

On 6 March 2008, pursuant to the provisions set out in article 22 of Royal Decree 1245/1995, of 14 July, on the formation of banks, cross-border activity and other issues relating to the legal regime for credit institutions, the Delegate Committee of Caixa Galicia appointed STD-Multiopción, S.A. as the credit institution agency for attracting deposits. This appointment was reported to the regulatory body on 27 May 2008 and registered with the corresponding Credit Institution Agents Register. Furthermore, on 29 February 2012 the Executive Committee of the Board of Directors of Banco Etcheverría appointed Bestex Inversiones, S.L. as credit institution agent for the fixed-income securities brokerage service. This appointment was reported to the regulatory body on 27 May 2012 and registered with the corresponding Credit Institution Agents Register.

Additionally, dated 4 August 2015, Abanca Mediación Operador de Banca Seguros Vinculado, S.L. was registered in the Register of Credit Institutions Agents as a credit institution agent for the attraction of deposits and loans.

In 2016, the Bank did not hold any agency agreement or relationship whatsoever with third parties, other than the one referred to in the foregoing paragraphs, for the negotiation or formal arrangement of banking transactions. Without prejudice to the foregoing, the Bank also has certain agreements with legal and natural persons aimed at winning transactions for its own benefit, although these parties have not been granted powers to negotiate or formally arrange these transactions, and cannot therefore be classified as Agents for the purposes set out in the aforementioned Royal Decree and in Bank of Spain Circular 4/2010. Appendix II lists the legal and natural persons with which the Bank has entered these agreements to attract operations, without those parties being granted powers to negotiate or formally arrange them.

1.7. Equity investments in credit institutions

In accordance with article 20 of Royal Decree 1245/1995, of 14 July, the Bank reports that it does not hold any investments in credit institutions that exceed 5% of their capital or voting rights at the 2016 and 2015 reporting dates.

1.8. Environmental impact

Given that the activities of the Bank have no significant environmental impact, the accompanying annual accounts do not contain any disclosure of environmental-related matters. Any additional information may be found in the Bank’s Corporate Social Responsibility Report available on the Bank's website.

1.9. Legal ratios

1.9.1. Minimum Capital Ratio

Until 31 December 2013, Bank of Spain Circular 2/2008, of 22 May, on the determination and control of minimum capital requirements, regulated the minimum capital requirements of Spanish credit institutions both on an individual and on a consolidated group basis.

On 27 June 2013 the new regulation on minimum capital requirements (called CRD-IV) was published in the Official Journal of the European Union, applicable as of 1 January 2014 and comprising the following:

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC; and

- Regulation (EU) No. 575/2013 (hereinafter CRR) of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

The directives have to be transposed into Spanish law, while the EU regulations are of immediate application as of their entry into force.

In Spain, Royal Decree 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation on the supervision and solvency of financial institutions (hereinafter the RDL), made a partial transposition into Spanish law of Directive 2013/36/EU and authorised the Bank of Spain, in its final provision five, to make use of the options attributed to the competent national authorities in Regulation (EU) No. 575/2013.

Therefore, all the provisions of Bank of Spain Circular 3/2008 that go against the aforementioned European regulation were revoked as of 1 January 2014. Furthermore, Bank of Spain Circular 2/2014, of 31 January, was published on 5 February 2014, whereby, in accordance with the powers conferred upon the competent national authorities by Regulation (EU) No. 575/2013; the Bank of Spain made use of certain permanent regulatory powers provided for in this regulation.

Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions has furthered the transposition of CRD-IV into Spanish legislation.

Bank of Spain Circular 2/2016, of 2 February, on supervision and solvency, was approved on 9 February 2016 and completes the adaptation of Spanish legislation to Directive 2013/36/EU and Regulation (EU) No. 575/2013. This Circular came into force on 10 February 2016.

All of the above constitute the prevailing legislation which regulates the minimum capital requirements of Spanish credit institutions (on an individual and consolidated Group basis), how such capital should be determined, the different capital self-assessment processes to be implemented by the institutions and the public information these entities should submit to the market.

The minimum capital requirements are calculated based on the Bank's exposure to credit and dilution risk, counterparty, position and settlement risk relating to assets and liabilities held for trading; currency risk, and operational risk. The Bank is also required to comply with the risk concentration limits set out in the legislation and with internal corporate governance.

In December 2016 the European Central Bank (ECB) announced its decision regarding prudential capital requirements applicable to the ABANCA for 2017 following the Supervisory Review and Evaluation Process (SREP). This decision requires ABANCA to maintain a minimum phased-in tier one common equity capital (CET1) of 7.50% and minimum phased-in total capital ratio of 11%.

At 31 December 2016, CET1 Ration (Common Equity Tier 1) stands at 14.55% (14.61% at 31 December 2015), while the Bank's Total Capital Ratio under Regulation EU 575/2013 stands at 14.92% of risk weighted assets (15.70% at 31 December 2015). At 31 December 2016 the Bank has a CET1 surplus of €1,765,191 thousand and its capital adequacy ratio exceeds the minimum requirements of the ECB by €981,240 thousand. With respect to article 92 of Regulation (EU) No. 575/2013, the Group has a CET1 surplus of €2,516,796 thousand, while its capital adequacy ratio exceeds minimum regulatory requirements by €1,732,840 thousand (€2,576,912 thousand and €1,963,066 thousand, respectively, at 31 December 2015).

1.9.2. Minimum reserves

The amendment to the regulations applicable to minimum reserves came into force in January 2012, increasing the ratio from 1% to 2%.

At 31 December 2016, as well as throughout 2016, ABANCA complied with the minimum ratio required by applicable Spanish regulations, based on Regulation (EC) No 1745/2003 of 12 September 2003.

1.10. Deposit Guarantee Fund and Resolution Fund

The Bank is a member of the Deposit Guarantee Fund (DGF). The expenses incurred for contributions to this fund in 2016 and 2015 totalled €32,124 thousand and €42,339 thousand, respectively, and are recognised as other operating expenses in the accompanying statements of profit or loss (see Note 37).

In order to restore the capital adequacy of the Deposit Guarantee Fund for Credit Institutions (DGFCI) in accordance with Article 6.2 of Royal Decree-Law 16/2011, of 14 October, at its meeting held on 30 July 2012 the DGF Management Committee agreed that the fund's member institutions should make an extraordinary contribution, payable in ten equal annual instalments.

Royal Decree-Law 6/2013 established a special one-off contribution to the Deposit Guarantee Fund of 3 per mil of eligible deposits. ABANCA was exempt from the first tranche of the contribution (40%). A seventh part of the second tranche, relating to the remaining 60%, was paid in 2014. Pursuant to the schedule of payments established by the DGF Management Committee at its meeting on 17 December 2014, the remaining part of the second tranche, which had already been recognised as a liability at 31 December 2014 has been settled in two equal payments of 50% respectively made in June 2015 and June 2016.

Pursuant to the new regulation, in 2016 an amount of €13,166 thousand was contributed to the Spanish resolution fund (Fund for Orderly Bank Restructuring, FROB). This contribution has been recognised as other operating expenses in the accompanying statement of profit or loss (€12,420 thousand in 2015) (See Note 37).

1.11. Events after the reporting period

In accordance with the minutes to the board of directors' meeting held on 2 February 2017, an interim dividend for 2016 amounting to €315,405 thousand was distributed to the shareholders on 3 February 2017 (see note 3).

In view of the judgement handed down by the Court of Justice of the European Union on 21 December 2016, which states that EU legislation on unfair terms in consumer contracts is contrary to national case law, which sets a time limit on the obligation to reimburse amounts collected when applying a clause that has been declared abusive, Royal Decree-Law 1/2017 of 20 January 2017, on urgent measures to protect consumers with respect to mortgage floor clauses, has been published.

The judgement of the Court of Justice of the European Union refers solely to consumer contracts. As such, it does not encompass loans for business or professional activities.

The measures provided in this Royal Decree-Law apply to loan or credit agreements backed by a real estate mortgage that contains a floor clause, and wherein the borrower is a consumer.

In compliance with the aforementioned legislation, the Bank has implemented a claims system that will be voluntary for consumers, and which has been operative since 21 February 2017. The Royal Decree-Law seeks to make headway in terms of measures aimed at protecting consumers, by providing a channel whereby consumers and the credit institutions with which they have entered into a mortgage loan or credit agreement that contains certain floor clauses may reach a consensus. Claims will be analysed centrally on an individual basis and a response will be given, one way or the other, within the deadline stipulated in the legislation, i.e. a maximum period of three months as of 21 February 2017 or as of the claim date, if this is later.

The contingency arising from this judgement has been recognised under "Provisions" (see note 21).

1.12. Average supplier payment period (Law 15/2010)

Pursuant to Law 15/2010, of 5 July, which amends Law 3/2004, of 29 December, containing measures to combat late payments in commercial transactions, as developed by the Spanish Accounting and Auditing Institute (ICAC) resolution of 29 January 2016 on disclosures in the notes to the annual accounts relating to late payments to suppliers in commercial transactions, in view of the activities in which the Group is engaged, the information on late payments disclosed in this note essentially reflects payments to service providers and sundry suppliers, rather than payments to depositors and holders of securities issued by the Group, which have been settled in strict compliance with the legal and contractual terms established in each case, for both on-demand and deferred payments.

Information on the average supplier payment period is presented below:

	2016	2015
	Days	Days
Average supplier payment period	16.27	18.23
Ratio of transactions paid	15.96	18.22
Ratio of transactions outstanding	21.26	18.52
	Amount (Thousand of euros)	Amount (Thousand of euros)
Total payments made	192,542	173,582
Total payments outstanding	1,225	5,504

2. Accounting policies and measurement criteria applied

The Bank has prepared these annual accounts for the porting period on a going concern basis.

The following accounting policies and measurement criteria have been applied in the preparation of the annual accounts:

2.1. Investments in subsidiaries, joint ventures and associates

2.1.1. Investments in subsidiaries

"Subsidiaries" are those companies that constitute, together with the Bank, a single decision-making unit. This decision-making unit is, typically but not exclusively, presumed to exist when the parent directly or indirectly owns half or more of the voting rights of the investee or, if this percentage is lower or zero, when there are circumstances or agreements with other shareholders of the investee that determine the existence of such a decision-making unit.

Notes 11 and 12 below contain significant information on the Bank's most relevant interests in these investees.

Interests in subsidiaries are presented in the balance sheet under "Investments in Subsidiaries" and are measured at acquisition cost less any eventual impairment, except where there is a firm commitment of divesture, in which case interest in subsidiaries are presented in the balance sheet under "Non-current assets and disposal groups classified as held for sale" and are measured in accordance with this classification (see Notes 2.19 and 12).

Pursuant to the provisions of Bank of Spain Circular 4/2004, when there is evidence that the investment in a subsidiary is impaired, the amount of the impairment is estimated as the negative difference between the recoverable amount (measured as the higher of its fair value less costs to sell and its value in use, understood as the present value of the cash flows expected to be generated by the investee or expected to be received in the form of dividends and those resulting from its sale or other disposal) and its carrying amount. Impairment losses, and the reversal of any previously recognised impairment losses, are recognised in the statement of profit or loss under "Impairment or reversal of impairment on investments in subsidiaries, joint ventures or associates".

Dividends received during the reporting period from these investments are recognised under "Dividend income" in the statement of profit or loss (see Note 30).

2.1.2. Investments in joint ventures

A joint venture is a contractual arrangement whereby two or more entities ("venturers") undertake an economic activity or hold assets in such a way that the strategic financial and operating decisions requires the unanimous consent of all the venturers, without requiring the establishment of a financial structure that is separate from the venturers.

Assets and liabilities allocated to jointly controlled operations and assets jointly controlled with other venturers are classified in the balance sheet according to their specific nature. Similarly, income and expenses originating from joint ventures are presented in the statement of profit or loss according to their nature.

The Bank also considers as "joint ventures" its investments in entities that are not subsidiaries and that are controlled jointly by two or more entities.

Pursuant to the provisions of Bank of Spain Circular 4/2004, when there is evidence that the investment in a joint venture is impaired, the amount of the impairment is estimated as the negative difference between the recoverable amount (measured as the higher of its fair value less costs to sell and its value in use, understood as the present value of the cash flows expected to be generated by the investee or expected to be received in the form of dividends and those resulting from its sale or other disposal) and its carrying amount. Impairment losses, and the reversal of any previously recognised impairment losses, are recognised in the statement of profit or loss under "Impairment or reversal of impairment on investments in subsidiaries, joint ventures or associates".

Dividends received during the reporting period from these investments are recognised under "Dividend income" in the statement of profit or loss (see Note 30).

2.1.3. Investments in associates

Associates are entities over which the Bank is in a position to exercise significant influence, even if they do not constitute, together with the Bank, a single decision-making unit or are under common control. Typically, this capacity is expressed by an interest (direct or indirect) representing 20% or more of the voting rights of the investee.

Interests in entities considered as "associates" are presented in the balance sheet under "Investments in Associates" and are measured at acquisition cost less any eventual impairment, except where there is a firm commitment of divesture, in which case interest in subsidiaries are presented in the balance sheet under "Non-current assets and disposal groups classified as held for sale" and are measured in accordance with this classification (see Notes 2.19 and 12).

Pursuant to the provisions of Bank of Spain Circular 4/2004, when there is evidence that the investment in an associate is impaired, the amount of the impairment is estimated as the negative difference between the recoverable amount (measured as the higher of its fair value less costs to sell and its value in use, understood as the present value of the cash flows expected to be generated by the investee or expected to be received in the form of dividends and those resulting from its sale or other disposal) and its carrying amount. Impairment losses, and the reversal of any previously recognised impairment losses, are recognised in the statement of profit or loss under "Impairment or reversal of impairment on investments in subsidiaries, joint ventures or associates".

Dividends received during the reporting period from these investments are recognised under "Dividend income" in the statement of profit or loss (see Note 30).

Notes 11.c and 12 below include certain information on the Bank's most relevant interests in these investees.

2.2. Financial instruments

2.2.1. Definitions

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

An "*equity instrument*" is any legal transaction that evidences a residual interest in the assets of the issuer after deducting all its liabilities.

A "*financial derivative*" is a financial instrument whose value fluctuates in response to changes in an observable market variable *(such as an interest rate, foreign exchange rate, financial instrument price or market index)*, for which the initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

"*Hybrid financial instruments*" are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

"*Compound financial instruments*" are contracts that simultaneously create for their issuer a financial liability and an own equity instrument *(such as convertible bonds, which entitle their holders to convert them into equity instruments of the issuer)*.

The following transactions are not treated as financial instruments for accounting purposes:

- Investments in subsidiaries, joint ventures and associates (to which Note 2.1 applies).

- The rights and obligations derived from employee pension plans (to which Note 2.12 applies).

2.2.2. Initial recognition of financial instruments

Financial instruments are initially recognised in the balance sheet when the Bank becomes party to the contract generating these financial instruments, in accordance with the conditions of the contract. Specifically, debt instruments such as loans and cash deposits are recognised from the date that a legal right to receive or pay cash arises, respectively. Derivatives are generally recognised from the trade date.

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

2.2.3. Derecognition of financial instruments

A financial asset is derecognised from the balance sheet when any of the following circumstances arise:

1. The contractual rights over the cash flows have expired; or

2. The financial asset and substantially all the rights and rewards associated therewith are transferred, or although these are not substantially transferred nor substantially retained, when control over the financial asset is transferred.

A financial liability is derecognised from the balance sheet when the obligations generated have expired or when it is redeemed by the Bank with the intention of re-trading or cancelling the liability.

2.2.4. Fair value and amortised cost of financial instruments

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

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

In particular, the fair value of a financial instrument traded on an organised, transparent and deep market included in the trading portfolios is equivalent to its daily quotation price and if, for exceptional reasons, its quotation price on a given date could not be established, methods similar to those used to measure derivatives not traded on organised markets are applied.

The fair value of derivatives not traded on organised markets or traded on organised but less deep and transparent markets, is equivalent to the sum of future cash flows originating from the instrument, discounted at the measurement date ("present value" or "notional close"); using methods recognised by the financial markets: "net present value" (NPV), option pricing models, etc.

Amortised cost is the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interest repayments, and plus or minus, as appropriate, the cumulative amortisation (as reflected in the statement of profit or loss), using the effective interest method, of the difference between the initial cost and the redemption amount of these financial instruments. The amortised cost of financial assets also includes any impairment losses.

The effective interest rate is the discount rate that exactly matches the net carrying amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate is the same as the contractual interest rate established on the acquisition date, adjusted, where applicable, to reflect the fees and transaction costs that should be included in the calculation of the effective interest rate pursuant to Bank of Spain Circular 4/2004, of 22 December. For financial instruments with a floating interest rate, the effective interest rate is calculated in a manner similar to that for fixed interest financial instruments, and is recalculated at each date of review of the contractual rate, taking into account any changes in future cash flows from the transaction.

2.2.5. Classification and measurement of financial assets and financial liabilities

Financial instruments are classified under the following categories in the balance sheet:

1. Financial assets and financial liabilities designated at fair value through profit or loss: this category comprises financial instruments classified as financial assets and financial liabilities held for trading and other financial assets and financial liabilities classified as at fair value through profit or loss:

    a. Financial assets held for trading are those which have been acquired with the intention of being realised in the near term or which form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking, or that are derivatives other than hedging instruments, including bifurcated hybrid financial instruments, pursuant to Bank of Spain Circular 4/2004.

    b. Financial liabilities held for trading are those issued with the intention of repurchasing them in the near term or which form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking; short positions deriving from the sale of assets purchased under obligatory resale agreements or borrowed; and derivatives not designated as hedging instruments, including bifurcated hybrid financial instruments, pursuant to Bank of Spain Circular 4/2004.

Items classified as financial instruments at fair value through profit or loss are initially measured at fair value, and changes in fair value are subsequently recognised with a balancing entry in "Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net" in the statement of profit or loss, with the exception of changes in fair value resulting from interest accrued on financial instruments other than trading derivatives, which is recognised under "Interest and similar income", "Interest expense and similar charges" or "Dividend income" in the statement of profit or loss, depending on their nature. Interest on debt instruments classified under this category is calculated using the effective interest method.

Nevertheless, financial derivatives that have equity instruments as their underlying asset whose fair value cannot be determined in a sufficiently objective manner and which are settled by delivery of those instruments are measured at cost.

2. Held-to-maturity investments: this category includes debt securities with fixed maturity and fixed or determinable cash flows that are traded on official markets, and which the Bank has, from inception and at any subsequent date, the positive intention and financial ability to hold to maturity.

   Debt securities included in this category are initially measured at fair value, adjusted to reflect transaction costs directly attributable to the acquisition of the financial asset, which will be taken to the statement of profit or loss using the effective interest method defined in Bank of Spain Circular 4/2004. They are subsequently measured at amortised cost using the effective interest method.

   Interest accrued on these securities is recognised under "Interest income" in the statement of profit or loss. Exchange differences on securities denominated in currencies other than the Euro that are included in this portfolio are recognised pursuant the criteria stated in Note 2.4. Possible impairment losses on these securities are recognised in accordance with the terms of Note 2.9.

   In any case, the Bank may not classify as held-to-maturity, or hold in this category, any financial asset if during the current period or the two preceding ones it has sold or reclassified assets in this portfolio for more than an insignificant amount relative to the total amount of the assets in this category, except in the following cases:

   a) Sales very close to the final maturity of the financial asset or the exercise date of call options held by the issuer, such that changes in market interest rates would not have a significant effect on the financial asset's fair value; for example, a sale three months before redemption for an investment with a residual maturity of five years at the date the investment was made.

   b) Sales subsequent to collection of substantially all of the financial asset's original principal through scheduled payments.

   c) Sales attributable to an isolated non-recurring event that could not have been reasonably anticipated by the Bank, such as a significant deterioration in the issuer's creditworthiness, tax changes, regulatory requirements or a major business combination requiring the realisation of held-to-maturity financial assets in order to maintain the entity's credit risk or interest rate risk levels within the policies and limits defined by the entity.

   During the first quarter of 2015 the Bank sold a significant portion of its portfolio of debt securities classified as held-to-maturity investments. The remaining financial assets in this category were reclassified to the portfolio of available-for-sale financial assets (see Note 7). As a result of the sale of the held-to-maturity investments portfolio, the Bank will not be able to classify any amounts in this category until the year commencing 1 January 2018.

3. Loans and receivables: this category consists of unquoted debt instruments, financing granted to third parties as part of the ordinary lending activities carried out by the Bank, and receivables from purchasers of goods and users of services.

   Financial assets included in this category are initially measured at fair value, adjusted to reflect commissions and transaction costs directly attributable to the acquisition of the financial asset, and which, in accordance with Bank of Spain Circular 4/2004, should be taken to the statement of profit or loss using the effective interest method until maturity. Assets included in this category are measured at amortised cost subsequent to acquisition.

   Assets purchased at a discount are recognised at the amount disbursed and the difference between the redemption amount and the cash disbursed is recognised as finance income using the effective interest method over the residual period until maturity.

   In general, it is the intention of the Bank to keep loans extended until final maturity, and these are therefore stated at amortised cost in the consolidated balance sheet.

   Interest accrued on these securities is recognised under "Interest income" in the statement of profit or loss. Exchange differences on securities denominated in currencies other than the Euro that are included in this portfolio are recognised following the criteria described in Note 2.4. Impairment losses on these securities are recognised in accordance with the terms described in Note 2.9. Debt instruments included in fair value hedges are recognised in accordance with the terms described in Note 2.3.

4. Available-for-sale financial assets: this category comprises debt instruments and equity instruments of entities that are not subsidiaries, joint ventures or associates, which have not been classified at fair value through profit or loss.

   Financial instruments included in this category are initially measured at fair value, adjusted to reflect transaction costs directly attributable to the acquisition of the financial asset, which will be taken to the statement of profit or loss until maturity using the effective interest method defined in Bank of Spain Circular 4/2004, except for financial assets that do not have a fixed maturity, which are recognised in the statement of profit or loss when the asset is derecognised or impaired. Subsequent to acquisition, financial assets included in this category are measured at fair value.

   Nevertheless, equity instruments whose fair value cannot be determined in a sufficiently objective manner are stated at cost, net of possible impairment losses, calculated in accordance with the criteria described in Note 2.9.

Changes in the fair value of available-for-sale financial assets corresponding to accrued interest or dividends are recognised with a balancing entry in "Interest income" (calculated using the effective interest method) and "Dividend income" in the statement of profit or loss, respectively. Impairment losses are recognised in accordance with the terms described in Note 2.9. Exchange differences on financial assets denominated in currencies other than the Euro are recognised in accordance with the criteria described in Note 2.4. Changes in the fair value of financial assets included in this category subject to fair value hedges are measured in accordance with the criteria described in Note 2.3.

Other changes in the fair value of financial assets classified as available-for-sale from their acquisition are recognised with a balancing entry in "Equity – Accumulated other comprehensive income – Available-for-sale financial assets" in the balance sheet until the financial asset is derecognised, whereupon the balance is recognised in the statement of profit or loss under "Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net".

Financial instruments which should be considered as non-current assets and disposal groups classified as held for sale in accordance with Rule Thirty-four of Bank of Spain Circular 4/2004 are recognised in the financial statements following the criteria described in Note 2.19.

5. Financial liabilities at amortised cost: this category includes all of the Bank's financial liabilities, as none of them qualify for classification as financial liabilities held for trading or financial liabilities at fair value through profit or loss, except for derivative financial instruments on which losses have been incurred for the Bank at year end, which are recorded under "Financial assets held for trading – Derivatives" and "Derivatives – Hedge accounting" in the balance sheet.

   Financial liabilities included in this category are initially measured at fair value, adjusted to reflect transaction costs directly attributable to the issue of the financial liability, which are taken to profit and loss until maturity using the effective interest method defined in Bank of Spain Circular 4/2004. These liabilities are subsequently measured at amortised cost calculated using the effective interest method defined in Bank of Spain Circular 4/2004.

   Interest accrued on these securities is recognised under "Interest expense" in the statement of profit or loss. Exchange differences on securities denominated in currencies other than the Euro that are included in this portfolio are recognised following the criteria described in Note 2.4. Financial liabilities included in this category subject to fair value hedges are recognised following the criteria described in Note 2.3.

Nevertheless, financial instruments which should be considered as non-current assets and disposal groups classified as held for sale in accordance with Rule Thirty-four of Bank of Spain Circular 4/2004 are recognised in the balance sheet under "Non-current assets and disposal groups classified as held for sale" (see Notes 2.19 and Note 11). However, these financial instruments will be measured and recognised pursuant to this Note.

A summary of the various techniques used by the Bank to measure the financial instruments recognised at fair value at 31 December 2016 and 2015 is as follows:

Market value based on	Percentage			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Quoted price in active markets	93.28%	-	95.54%	-
Internal measurement models based on observable market data	3.36%	100%	2.06%	100%
Internal measurement models not based on observable market data	3.36%	-	2.40%	-

A breakdown of the Bank's financial instruments by measurement method used, is as follows:

	Thousands of euros							
	2016				**2015**			
	Quoted price in active markets	Internal models based on observable market data	Internal models not based on observable market data	Total	Quoted price in active markets	Internal models based on observable market data	Internal models not based on observable market data	Total
Financial assets held for trading	-	141,046	-	141,046	97,100	149,705	-	246,805
Available-for-sale financial assets (assets)	5,526,612	-	199,303	5,725,915	7,810,703	1,163	198,745	8,010,611
Derivatives - hedge accounting (assets)	-	57,919	-	57,919	-	19,810	-	19,810
Financial liabilities held for trading	-	116,623	-	116,623	-	132,099	-	132,099
Derivatives - hedge accounting (liabilities)	-	149,478	-	149,478	-	77,296	-	77,296

The main techniques used or internal measurement models consist in the analysis of discounted cash flows of financial instruments of all kinds over their remaining life.

The Board of Directors of the Bank considers that financial assets and financial liabilities in the balance sheet and gains and losses on these financial instruments are reasonable and reflect their market value.

2.2.6. Offsetting of financial instruments

Financial assets and financial liabilities are offset, i.e. reported in the balance sheet at their net amount, only if the Bank has both a legally enforceable right to offset the recognised amounts in these instruments and intends either to settle on a net basis, or to realise the asset and pay the liability simultaneously.

2.3. Hedge accounting and mitigation of risks

The Bank uses financial derivatives as part of its strategy to reduce exposure to interest rate and currency risks, amongst others. These operations are considered as hedging transactions when certain requirements are met.

The Bank designates operations as hedges on inception of the hedge or the hedged instruments, and duly documents the hedging transaction. Documentation on these transactions should identify the hedged instrument or instruments and the hedging instrument or instruments, in addition to the nature of the risk to be hedged; as well as the criteria or methods followed by the Bank to evaluate the effectiveness of the hedge throughout its duration, taking into account the risk it intends to hedge.

The Bank only considers operations that are considered highly effective throughout the duration of the operation as hedging transactions. A hedge is considered highly effective if during the expected term of the hedge changes in fair value or cash flows attributed to the risk hedged are virtually fully offset by changes in the fair value or cash flows, as applicable, of the hedging instrument or instruments.

To measure the effectiveness of hedging transactions, the Bank analyses whether from inception to expiration of the hedge it can expect, prospectively, that the changes in fair value or cash flows of the hedged item that are attributable to the hedged risk will be nearly completely offset by changes in the fair value or cash flows, as applicable, of the hedging instrument or instruments and, retrospectively, whether gains or losses on the hedging transaction are within a range of 80% to 125% of the results of the hedged item.

The hedging transactions carried out by the Bank are classified under the following categories:

1. Fair value hedges: these cover exposure to changes in fair value of financial assets and financial liabilities or unrecognised firm commitments, or an identified portion of these assets, liabilities or firm commitments, attributable to a particular risk, provided that these changes could affect the statement of profit or loss.

2. Cash flow hedges: hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a financial asset or liability or to a highly probable forecast transaction, provided that it could affect the statement of profit or loss.

With respect to financial instruments designated as hedged items and that qualify for hedge accounting, differences in measurement are recognised according to the following criteria:

1. In fair value hedges, differences generated in both hedging instruments and hedged items – with respect to the type of hedged risk – are recognised directly in the statement of profit or loss.

2. In cash flow hedges, changes in value arising in the effective portion of the hedge are recognised temporarily under "Equity – Accumulated other comprehensive income – Cash flows hedging derivatives (effective portion)" in the accompanying balance sheet. The financial instruments hedged in this kind of hedging transaction are recognised as explained in Note 2.2 with no variation since they are considered hedged items.

In the latter case, changes in value of the hedging instruments are not recognised in profit or loss until the gains or losses on the hedged item are recognised in profit or loss or until the hedged item expires. Changes in value of the hedging instrument corresponding to the ineffective portion of cash flow hedges are recognised directly under "Gains or losses on hedge accounting, net" in the statement of profit or loss.

The Bank discontinues hedge accounting when the hedging instrument expires or is sold, the hedge no longer qualifies for hedge accounting or the Bank revokes the designation of a hedge.

When, in accordance with the preceding paragraph, fair value hedging is discontinued, adjustments to the value of hedged items measured at amortised cost resulting from the aforementioned hedge accounting are taken to the statement of profit or loss until the hedged items expire, using the effective interest rate recalculated on the date the hedging transaction is discontinued.

In the event that a cash flow hedge is discontinued, the cumulative gain or loss on the hedging instrument recognised under "Equity – Accumulated other comprehensive income – Cash flow hedging derivatives (effective portion)" in the balance sheet shall remain recognised in that item until the hedged transaction occurs, and then it is immediately recognised in the statement of profit or loss. In the case of cash flow hedges, the acquisition cost of the asset or liability to be recorded is corrected in the event that the item hedged is a forecast transaction that culminates in the recognition of a financial asset or liability.

2.4. Foreign currency transactions

2.4.1. Functional currency

The Bank's functional currency is the Euro. Therefore, all balances and transactions denominated in currencies other than the Euro are deemed to be denominated in foreign currency.

At 31 December 2016 and 2015 the equivalent value, in thousands of Euros, of the main assets and liabilities held by the Bank in foreign currency, considering the nature of the items and the main currencies in which they are denominated, is as follows:

At 31 December 2016

	Equivalent in Thousands of euros	
	Assets	Liabilities
Balances in US dollars:		
Cash, cash balances with central banks and other demand deposits	22,631	-
Loans and receivables	869,320	-
Financial assets held for trading	2,444	-
Other assets	7,447	-
Financial liabilities at amortised cost	-	1,098,736
Other liabilities	-	3,245
	901,842	1,101,981
Balances in Japanese yens:		
Cash, cash balances with central banks and other demand deposits	371	-
Loans and receivables	1,752	-
Other assets	33	-
Financial liabilities at amortised cost	-	8
	2,156	8
Balances in pounds sterling:		
Cash, cash balances with central banks and other demand deposits	2,107	-
Loans and receivables	3,964	-
Other assets	556	-
Financial liabilities at amortised cost	-	58,436
Other liabilities	-	13
	6,627	58,449
Balances in other currencies:		
Cash, cash balances with central banks and other demand deposits	58,935	-
Loans and receivables	276,063	-
Other assets	463	-
Financial liabilities at amortised cost	-	70,135
Other liabilities	-	930
	335,461	71,065
Total foreign currency balances	1,246,086	1,231,503

At 31 December 2015

	Equivalent in Thousands of euros	
	Assets	Liabilities
Balances in US dollars:		
Cash, cash balances with central banks and other demand deposits	52,404	-
Loans and receivables	875,435	-
Financial assets held for trading	37,455	-
Other assets	1,049	-
Financial liabilities at amortised cost	-	1,098,255
Other liabilities	-	4,558
	966,343	1,102,813
Balances in Japanese yens:		
Cash, cash balances with central banks and other demand deposits	921	-
Loans and receivables	1,940	-
Financial liabilities at amortised cost	-	15
	2,861	15
Balances in pounds sterling:		
Cash, cash balances with central banks and other demand deposits	35,097	-
Loans and receivables	4,988	-
Other assets	144	-
Financial liabilities at amortised cost	-	86,161
Other liabilities	-	-
	40,229	86,161
Balances in other currencies:		
Cash, cash balances with central banks and other demand deposits	60,279	-
Loans and receivables	194,237	-
Other assets	4,002	-
Financial liabilities at amortised cost	-	63,319
Other liabilities	-	2,334
	258,518	65,653
Total foreign currency balances	1,267,951	1,254,642

2.4.2. Translation of foreign currency balances

Transactions in foreign currency carried out by the Bank outside the Eurozone are initially recognised in their respective currencies. Subsequently, monetary assets and liabilities in foreign currency are translated to the functional currency at the closing rate, defined as the average spot exchange rate at the reporting date.

In addition:

1. Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.

2. Non-monetary items measured at fair value are translated to the functional currency at the exchange rate at the date when fair value was determined.

3. Income and expenses are translated at the exchange rate at the transaction date. An average exchange rate may be used for all the transactions carried out in a particular period.

4. Forward foreign currency transactions involving only foreign currencies or involving Euros and foreign currencies, and which are not hedges, are translated at the year-end exchange rates applicable for their expiry date, as quoted in currency futures markets.

2.4.3. Recognition of exchange differences

Exchange differences arising from the translation of foreign currency balances into the functional currency are generally recognised at their net amount under "Exchange differences, net" in the statement of profit or loss, except exchange differences deriving from financial instruments at fair value through profit or loss, which are recognised in the statement of profit or loss under "Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net", not differentiating them from the rest of the changes in fair value.

2.5. Recognition of income and expenses

The most significant accounting criteria used by the Bank to recognise income and expenses are summarised below:

2.5.1. Interest income and expenses, dividends and similar items

In general, interest income, interest expenses and similar items are accounted for on an accruals basis using the effective interest rate method defined in Bank of Spain Circular 4/2004. Dividends received from other companies are recognised as income when the right to receive them arises.

2.5.2. Commissions, fees and similar items

Income and expenses derived from commissions, fees and similar items, which should not be included in the calculation of the effective interest rate of operations and/or which do not form part of the acquisition cost of financial assets and financial liabilities not classified at fair value through profit or loss, are recognised in the statement of profit or loss using criteria that vary according to their nature. The most significant items are as follows:

1. Those associated with the acquisition of financial assets and financial liabilities at fair value through profit or loss, which are recognised in the statement of profit or loss when paid or received.

2. Those originating from transactions or services carried out over an extended period, which are recognised in the consolidated statement of profit or loss over the term of the transactions or services.

3. Those relating to the provision of a service in a single act, which are recognised in the statement of profit or loss when the single act is carried out.

2.5.3. Non-finance income and expenses

These are recognised on an accruals basis.

2.5.4. Deferred receipts and payments

Deferred receipts and payments are recognised at the amount that results from discounting forecast cash flows at market rates.

2.6. Offsetting of balances

Receivables and payables may only be used to offset each other (and are therefore presented in the balance sheet at the net amount) if they derive from transactions in which this possibility is specified in the contract or in compliance with a legal obligation, and provided that the balances will be settled on a net basis or the asset realised and the liability settled simultaneously.

2.7. Transfers of financial assets

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

- If the risks and rewards of the transferred assets are substantially conveyed to third parties (as in the case of unconditional sales, sales of financial assets with an option to repurchase the financial asset at its fair value at the time of repurchase, sales of financial assets with put options and call options that are deeply out of the money, asset securitisations in which the transferor neither retains subordinated financing nor grants any type of credit enhancement to the new owners, and other similar cases), the transferred financial asset is derecognised from the balance sheet and any right or obligation retained or created as a result of the transfer is simultaneously recognised.

- If the risks and rewards associated with the transferred financial asset are substantially retained (as in the case of financial asset sale and repurchase transactions where the repurchase price is a fixed price or the fixed price plus interest, securities lending agreements in which the borrower is obliged to return the same or similar assets, financial asset securitisations that maintain subordinated financing or other types of credit enhancements that substantially absorb expected loan losses for the securitised assets, and other similar cases), the transferred financial asset is not derecognised from the balance sheet and continues to be measured using the same criteria applied prior to the transfer. The following items are recognised without being offset:

  - An associated financial liability for an amount equal to the consideration received, which is subsequently measured at amortised cost, or at fair value where the aforementioned conditions for classification as other financial liabilities at fair value through profit or loss are met, in accordance with the criteria described for this financial liability category.

  - The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability.

- If the risks and rewards associated with the transferred financial asset are neither substantially transferred nor substantially retained (as in the case of sales of financial assets with put options and call options that are neither deeply in nor out of the money, financial asset securitisations in which the transferor assumes subordinated financing or another type of credit enhancement for part of the transferred asset, and other similar cases), the following differentiations are made:

  - If the transferor does not retain control of the transferred financial asset, it is derecognised from the balance sheet and any right or obligation retained or created as a result of the transfer is recognised.

- If the transferor retains control of the transferred financial asset, it continues to be recognised in the balance sheet at an amount equal to its exposure to the changes in value by which it could be affected, and an associated financial liability is recognised. The carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Based on the above, financial assets are only derecognised when the cash flows they generate are extinguished or when the inherent significant risks and rewards have been substantially transferred to third parties.

2.8. Exchanges of assets

An "exchange of assets" is the acquisition of tangible and intangible assets in exchange for the conveyance of other non-monetary assets or a combination of monetary and non-monetary assets. For the purpose of the accompanying annual accounts, foreclosures of assets in settlement of amounts due by third parties to the Bank do not constitute an exchange of assets.

Items received in an exchange of assets are measured at fair value, provided that this exchange operation could be understood to have a commercial substance, as defined in Bank of Spain Circular 4/2004, and when the fair value of the asset received, or the asset given up, can be estimated reliably. The fair value of the instrument received is determined as the fair value of the asset given up, plus, where applicable, the fair value of any monetary consideration given up, except when there is much clearer evidence of the fair value of the asset received.

Exchanges of assets that do not meet the requirements described above are recognised at the carrying amount of the asset given up, plus any monetary consideration paid or committed on acquisition.

2.9. Impairment of financial assets

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

1. In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.

2. In the case of equity instruments, mean that it will not be possible to fully recover their carrying amount.

As a general rule, write-down of the carrying amount of impaired financial instruments is recognised in the statement of profit or loss in the period in which the impairment has arisen. Reversals of previously recognised impairment losses, if any, are recognised in the statement of profit or loss for the period in which the impairment is eliminated or reduced.

When the recovery of any recognised impairment is considered unlikely, the amount of the impairment is derecognised, without prejudice to any initiatives the Bank may undertake to seek collection of the amount receivable until their contractual rights are extinguished by expiry of the statute-of-limitations period, pardoning of debt or any other cause.

The criteria applied by the Bank to calculate possible impairment losses in each financial instrument category, and the method used to calculate the hedges recognised for such impairment, are as follows:

2.9.1. Debt instruments measured at amortised cost

To calculate impairment losses, the Bank monitors receivables on an individual basis when they are deemed significant, while groups of financial assets with similar credit risk characteristics that are indicative of the debtors' ability to pay the amounts due are monitored on a collective basis.

1. Classification on the basis of credit risk attributable to insolvency:

The Bank has defined criteria that enable it to identify borrowers that show weaknesses or objective evidence of impairment, and to classify them on the basis of their credit risk. The classification principles and methodology used by the Bank are described below.

2. Definition of the classification categories:

Debt instruments not included in financial assets held for trading and off-balance sheet exposures are classified in terms of credit risk attributable to insolvency as one of the following.

- Performing exposures:

  - Transactions that do not meet the requirements for them to be classified in other categories.

  - Performing exposures under special monitoring: transactions that, while not meeting the criteria for individual classification as non-performing or write-off, present weaknesses that may lead to the incurrence of losses exceeding those on other similar transactions classified as performing exposures.

- Non-performing:

  - As a result of borrower arrears: transactions any part of whose principal, interest or contractually agreed expenses is, in general, more than 90 days past-due, unless such instruments should be classified as being written off. This category also includes guarantees given if the guaranteed party has fallen into in arrears in the guaranteed transaction. Furthermore, it includes the amounts of all a borrower's transactions if the transactions with amounts generally more than 90 days past-due, as indicated previously, exceed 20% of the outstanding amounts.

  - For reasons other than borrower arrears: transactions which are not classifiable as write-off or non-performing due to borrower arrears, but for which there are reasonable doubts about their full repayment under the contractual terms. Also included are off-balance-sheet exposures not classified as non-performing due to borrower arrears whose payment by the Bank is likely but whose recovery is doubtful.

- Write-off:

  - The Bank derecognises transactions when individual analysis indicates that their recovery is very unlikely. This category includes exposures of customers subject to bankruptcy proceedings with an application for liquidation, and transactions classified as non-performing due to arrears that have been in this category for more than four years, except those with sufficient effective collateral. It also includes transactions that are not in either of the two preceding situations, but whose solvency has undergone a manifest and irreversible deterioration.

    In the aforementioned situations, the Bank derecognises any amount recognised together with the corresponding provision, without prejudice to any initiatives that may be undertaken to seek collection of the amount receivable until contractual rights are extinguished by expiry of the statute-of-limitations period, pardoning of debt or any other cause.

3. Transaction classification criteria:

The Bank applies a range of criteria to classify borrowers and transactions into different categories on the basis of their credit risk. These include:

- Automatic criteria;

- Specific criteria for refinancing operations; and

- Indicator-based criteria.

Applying these procedures, the Bank classifies its borrowers as performing exposures under special monitoring, or non-performing as a result of borrower arrears or non-performing due to reasons other than borrower arrears, or they are left as performing exposures.

Unless reasons for continuing to classify them as non-performing exposures persist, transactions classified as non-performing are reclassified as performing exposures when the reasons for classifying them as non-performing cease to exist, following collection of a portion or all of the past-due amounts in the case of receivables that are non-performing as a result of borrower arrears, or the cure period having elapsed in the case of receivables that are non-performing due to reasons other than borrower arrears.

Individual classification:

The Bank has defined an exposure threshold above which borrowers are considered significant, based on exposure at default (EAD).

A system of indicators has been devised for significant borrowers enabling weaknesses or indications of impairment to be identified. The team of expert risk analysts at the Entity analyses borrowers and, using the indicators, concludes on the existence of weaknesses or objective evidence of impairment. Where there is evidence of impairment, the team analyses whether the loss event(s) has an impact on the estimated future cash flows of the financial asset or group of assets.

To this end, the Bank has defined a number of circumstances that are considered to be indications of impairment. These circumstances also include automatic classification factors.

Each year the Bank reviews the reasonableness of the thresholds and the individually calculated allowances and provisions resulting from applying these thresholds.

Based on the levels defined, a certain volume of borrowers enabling a reasonable coverage ratio vis-à-vis the total credit risk exposure is positioned above the materiality threshold, and is thus subject to individual expert analysis.

Collective classification:

In calculating allowances and provisions, the Bank considers borrowers on a collective basis when they do not exceed the materiality threshold.

4. Calculation of allowances and provisions:

The Bank applies the criteria described below when calculating allowances and provisions for credit risk losses.

In the case of transactions identified as being of negligible risk (essentially, those conducted with central banks, government agencies, public enterprises and financial institutions, all within the European Union or in certain countries deemed to present no risk), a provisioning percentage of 0% is applied, with the exception of transactions classified as non-performing, for which impairment is estimated on an individual basis. This estimation process entails a calculation of the allowance and provision needed for credit risk attributable to the borrower and also for country risk. If there are reasons for simultaneously recording allowances or provisions for both credit risk attributable to the borrower and for country risk, the most demanding impairment recognition criteria are applied.

When calculating allowances and provisions, the Bank considers as a measurement of exposure the balances currently drawn down and the amount of the expected disbursement in the event that off-balance sheet exposures were to fall into arrears, estimated using a credit conversion factor (CCF).

For transactions classified as non-performing, an estimate is made of the incurred losses, defined as the difference between the gross carrying amount of the exposure and the present value of the estimated future cash flows, as described later on.

The different methodologies used by the Bank are described below.

Individualised estimates of allowances and provisions

The following are estimated individually:

- Allowances and provisions for non-performing transactions of individually significant borrowers.

- Any transactions or borrowers whose characteristics do not allow for collective calculation of impairment.

- Allowances and provisions for transactions identified as being of negligible risk, classified as non-performing, whether on account of arrears or for other reasons.

The Bank has developed a methodology for estimating these allowances and provisions, calculating the difference between the gross carrying amount of the transaction and the present value of the estimated cash flows expected to be collected, discounted using the effective interest rate. For this purpose, the effective guarantees received are taken into account.

There are three main methods for calculating the recoverable amount of assets analysed on an individual basis:

- Discounted cash flow approach: receivables for which the borrower is expected to be able to generate future cash flows by conducting their own business, enabling repayment of part or all of the debt through their activity and the economic and financial structure of the company. This entails estimating the cash flows obtained by the borrower in conducting their business.

- Recovery through collateral approach: receivables for which the borrower is unable to generate cash flows by conducting their own business and must therefore liquidate assets to repay their debt. This entails estimating cash flows obtainable by enforcing the collateral.

- Mixed approach: receivables for which the borrower is expected to be able to generate future cash flows, and where assets not required in the ordinary course of business also exist. The cash flows may be supplemented with the potential sale of assets not required by the borrower to conduct their business, thus generating future cash flows.

Collective estimates of allowances and provisions

The following are estimated collectively:

- Exposures classified as performing (including those classified as under special monitoring) for which the Bank considers that a loss has been incurred but not reported (IBNR), as no impairment has come to light in individually analysed transactions.

- Exposures classified as non-performing and not assessed through the individual estimation of allowances and provisions.

When measuring collective impairment the Bank considers all credit exposures and applies the hedging methods and percentages defined by the Bank of Spain in databases and statistical models that aggregate the average performance of entities within the banking industry in Spain.

Classification of and allowances and provisions for credit risk attributable to country risk:

Country risk is the risk associated with counterparties resident in a specific country due to circumstances other than normal commercial risk (sovereign risk, transfer risk and other risks arising from international financial activity). The Bank classifies transactions conducted with third parties in different groups on the basis of the economic performance of the countries, the political situation, the regulatory and institutional framework, and the payment capacity and record, allocating a loan loss provisioning percentage to each one pursuant to the legislation in force.

Non-performing assets due to country risk are deemed to be those transactions with ultimate obligors resident in countries that have had long-standing difficulties in servicing their debt, the possibility of recovering such debt being considered as non-performing; and off-balance sheet exposures, recovery of which is considered a remote possibility due to circumstances attributable to the country.

The allowances and provisions for this item are not significant relative to the allowances and provisions the Bank has recognised for impairment.

5. Collateral/guarantees:

Collateral and personal guarantees the Bank is able to show are valid as a means of mitigating credit risk are considered effective. The analysis of effectiveness of collateral/guarantees takes into account, inter alia, the time needed to realise them, the Bank's ability to do so, and its past experience thereof.

Under no circumstances are collateral/guarantees whose effectiveness depends substantially upon the credit quality of the debtor, or of any economic group to which the debtor may belong, admissible as effective collateral/guarantees.

In accordance with these conditions, the following types of collateral/guarantees may be considered effective:

- Real estate mortgages, provided they are the first mortgage:
  - Completed buildings and parts thereof:
    - ✓ Housing
    - ✓ Offices and commercial premises and multi-purpose industrial buildings
    - ✓ Other buildings, such as non-multi-purpose industrial buildings and hotels
  - Urban land and regulated building land.
  - Other real estate.
- Financial instruments pledged as security:
  - Money deposits.
  - Variable interest instruments in listed entities and debt securities issued by creditworthy issuers.
- Other collateral:
  - Personal property received as collateral.
  - Subsequent mortgages on properties.
- Personal guarantees that entail the direct and joint liability of the customer's new guarantors, these being persons or entities whose solvency is sufficiently demonstrated as to ensure the full repayment of the transaction under the agreed terms.

The Bank's collateral measurement criteria for assets located in Spain are in accordance with the legislation in force. In particular, the Bank applies criteria for the selection and contracting of appraisers that are geared towards assuring the independence of the appraisers and the quality of the appraisals. All of these appraisal companies and agencies are registered in the Bank of Spain's Official Register of Appraisal Companies and valuations are conducted in accordance with Ministerial Order ECO/805/2003 on rules for the appraisal of real estate and of certain rights for financial purposes.

Real estate collateral for credit transactions, and properties, are appraised upon transfer or recognition. In the case of properties, this is through purchase, foreclosure or dation in payment and when there is a significant drop in the asset's value. Moreover, minimum discounting criteria are applied so as to guarantee annual frequency in the case of impaired assets (under special monitoring, non-performing, and real estate foreclosed or received in payment of debt) or every three years in the case of debts for a large amount classified as performing exposures and showing no signs of underlying risk. The appraisals of the aforementioned assets are discounted using statistical methodologies only when the level of exposure and risk is low, although a complete appraisal in accordance with the ministerial order is carried out at least every three years.

Assets located elsewhere in the European Union are appraised in accordance with Royal Decree 716/2009, of 24 April, while in the rest of the world appraisals are performed by companies and/or experts with accredited capacity and experience in the country in question.

2.9.2. Debt instruments classified as available for sale

Impairment losses on debt instruments classified as available-for-sale financial assets, if any, reflect the positive difference between their acquisition cost (net of any amounts repaid on the principal) and their fair value, after deduction of any impairment loss previously recognised in the statement of profit or loss.

The Bank calculates impairment losses due to insolvency of the issuer of the available-for-sale debt securities using the criteria described in Note 2.9.1 on debt instruments carried at amortised cost.

Where there is objective evidence that negative differences arising on the measurement of these assets are due to their impairment, they cease to be recognised in "Accumulated other comprehensive income – Available-for-sale financial assets" in the equity side of the balance sheet and the total accumulated amount is transferred to the statement of profit or loss. If impairment losses are subsequently reversed, these are recognised in the statement of profit or loss for the year in which the reversal occurs.

In the case of debt instruments that must be classified as "Non-current assets and disposal groups classified as held for sale", losses previously recorded in equity are considered to be realised, and are therefore recognised in the statement of profit or loss on the date they are so classified.

2.9.3. Equity instruments classified as available for sale

The impairment loss on equity instruments classified as available for sale is the difference between their acquisition cost and their fair value, after deduction of any impairment loss previously recognised in the statement of profit or loss.

Impairment losses on equity instruments classified as available for sale are recognised using criteria similar to those described in Note 2.9.2 for debt instruments; except that any reversals are recognised in "Accumulated other comprehensive income – Available-for-sale financial assets" the equity side of the balance sheet. In general, the Bank considers there is objective evidence of impairment of equity instruments classified as available for sale when there are sustained significant unrealised losses due to a fall in share price of at least 40% lasting more than 18 months.

2.9.4. Equity instruments measured at cost

Impairment losses on equity instruments measured at cost are the difference between their carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Impairment losses are recognised in the statement of profit or loss for the period in which they arise as a reduction in the cost of the instrument. These losses can only be recovered subsequently in the event of the disposal of the assets.

The criteria stated under Note 2.1 above apply when estimating and accounting for impairment losses on investments in subsidiaries, joint ventures and associates that, for the purposes of these annual accounts, are not classified as "Financial instruments".

2.10. Financial guarantees and related provisions made

Contracts requiring the issuer to make payments to reimburse a creditor for losses incurred when a particular debtor fails to meet a payment obligation under the original or amended conditions of a debt instrument are considered financial guarantee contracts, irrespective of their various legal forms (security deposits, financial guarantees, insurance contracts or credit derivatives).

The Bank initially recognises the financial guarantees provided as liabilities at fair value, comprising the premium received plus the present value of any cash flows to be received (commissions), using an interest rate similar to that of the financial assets extended by the Bank with a similar term and risk, and simultaneously recognising a receivable in respect of the present value of expected future cash flows, using the aforementioned rate of interest.

Financial guarantees, irrespective of the holder, arrangement or any other circumstances, are analysed periodically to determine the credit risk to which they are exposed and, where applicable, to estimate the provisions required. This amount is calculated by applying criteria similar to those used to quantify impairment losses arising on debt instruments measured at amortised cost.

Where a provision is required for these financial guarantees, the commissions pending accrual and which are recognised as “Other liabilities” in the balance sheet are reclassified to “Provisions for commitments and guarantees extended”.

2.11. Accounting for lease transactions

2.11.1. Finance leases

Finance leases are those in which substantially all the risks and rewards incidental to ownership of the leased asset are transferred to the lessee.

When the entity acts as the lessor in a finance lease transaction, the sum of the present value of future lease instalments receivable and the guaranteed residual value – generally the exercise price of the purchase option available to the lessee on expiry of the contract – is recognised as financing to third parties under “Loans and receivables” in the balance sheet, based on the nature of the lessee.

When acting as the lessee in a finance lease transaction, the entity recognises the cost of the leased assets in the balance sheet according to the nature of the asset forming the subject-matter of the contract, and simultaneously recognises a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments to be made to the lessor plus the exercise price of the purchase option, where applicable). The depreciation policy for these assets is consistent with that for tangible assets (see Note 2.14).

In both cases, finance income and costs originating from these contracts are credited and debited to the statement of profit or loss as “Interest income” and “Interest expense”, respectively.

2.11.2. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the Bank acts as the lessor in an operating lease transaction, the cost of acquisition of the leased assets is recognised under “Tangible assets” as “Investment property” or “Other assets leased out under an operating lease”, depending on the nature of the leased asset. At 31 December 2016 and 31 December 2015 no “Other assets leased out under an operating lease” have been recognised in the accompanying balance sheet. These assets are depreciated in accordance with the policies adopted for similar tangible assets for own use (see Note 2.14.1). Lease income is recognised on a straight-line basis under “Other operating income” in the consolidated statement of profit or loss.

When the Bank acts as the lessee in an operating lease transaction, lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to "Other administrative expenses" in the statement of profit or loss.

2.12. Personnel expenses

2.12.1. Post-employment benefits

The Bank undertakes to supplement benefits payable to certain pensioners, employees and associated rights-holders by the public Social Security system subsequent to the period of employment.

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

Defined contribution plans

The contributions made by the Bank in this regard each year are recognised under "Personnel expenses" in the statement of profit or loss.

At year end, any amounts pending contribution to the external plan associated with the commitments are recognised as liabilities at their present value in "Provisions - Pensions and other post-employment defined benefit obligations" in the balance sheet.

Defined benefit plans

The Bank recognises the present value of its defined benefit pension obligations as liabilities under "Provisions - Pensions and other post-employment defined benefit obligations" in the balance sheet, net, as explained below, of the fair value of the assets that qualify as "plan assets".

Plan assets are assets linked to a specific defined benefit commitment that will be used to directly settle these obligations. They have the following characteristics: they are not owned by the Bank, but rather by a legally separate third party not related to the Bank; they are only available to settle or finance post-employment benefits payable to employees; they can only be returned to the Bank when the remaining assets in the plan are sufficient to meet all obligations of the plan or the Bank relating to current or former employee benefits or to reimburse employee benefits already settled by the Bank.

Actuarial gains and losses are deemed to be those arising from differences between previous actuarial assumptions and what has actually occurred in the plan, and from changes in the actuarial assumptions used. The Bank recognises any actuarial gains and losses in the period in which they are generated or incurred, with a credit or debit to "Accumulated other comprehensive income" in equity.

The past service cost, incurred due to modifications to existing post-employment benefits or on the introduction of new benefits, is recognised in the statement of profit or loss on a straight-line basis when it arises.

If the Bank is able to demand payment from an insurer of part or all of the disbursement required to settle the defined benefit obligation, and it is practically certain that the insurer will reimburse some or all of the disbursements required to settle the obligation, but the insurance policy does not meet the conditions to be considered a plan asset, the Bank recognises this reimbursement right under "Other assets - Insurance contracts linked to pensions" in the balance sheet. This right is treated as a plan asset in all other respects.

2.12.2. Other long-term employee benefits

2.12.2.1 Early retirement and partial retirement

Until the date of effective retirement, these commitments are accounted for, as applicable, using the above-mentioned criteria described for defined benefit post-employment commitments, except that the actuarial gains and losses are recognised immediately when they arise.

Early retirement and partial retirement not included in the Labour Agreement dated 4 October 2010

The Bank was subrogated to the commitments resulting from early retirements and partial retirements agreed by the merged Savings Banks in 2010 and previous years, with respect both to salaries and other employee benefits, from the date of early retirement or partial retirement until the effective retirement date. Furthermore, the Bank took on commitments for the employee benefits and medical insurance of four early-retired employees in 2011 that were not party to the Labour Agreement dated 4 October 2010.

At the 2016 reporting date, €214 thousand have been recognised in this respect under "Provisions – Pensions and other post-employment defined benefit obligations" in the liabilities side on the balance sheet (€244 thousand at the 2015 year end).

2.12.2.2 Death and disability of serving employees

The commitments assumed by the Bank for death and disability contingencies with its personnel during the period that these commitments remain in force have been covered through insurance policies (either directly by ABANCA, or indirectly through the Pension Plans in which these commitments have been arranged) taken out with the insurance companies Caser and ABANCA Vida y Pensiones de Seguros y Reaseguros, S.A.U.

2.12.2.3 Termination benefits

In accordance with current legislation, the Bank is obliged to indemnify those persons whose employment relationship is terminated under a workforce restructuring plan or who are dismissed unfairly, as well as in those cases in which there is a contractual stipulation for payment of severance pay in the event of termination of the employment relationship, all of which falls within the framework of legally applicable labour regulations.

Commitments resulting from the Labour Agreement of 4 October 2010

As part of the merger process, a Labour Agreement was signed on 4 October 2010 for the purpose of achieving a streamlined restructuring of the workforce, through the adoption of soft measures that favour compliance with the "Integration Plan".

The provisions recognised by the Bank to meet the commitments under the above mentioned labour agreement, which at 31 December 2016 totalled €11,047 thousand (€22,904 thousand at 31 December 2015), are recognised as liabilities under "Provisions - Pensions and other post-employment defined benefit obligations" in the accompanying balance sheet (see Note 21).

Labour Agreement of 22 March 2012

A new agreement was signed in March 2012 by the majority of workers' representatives to instigate a workforce restructuring plan (134/2012) on economic grounds.

During the first two months of 2013, the Bank finalised the termination of employment contracts set out in Workforce Restructuring Plan 134/2012 (WRP 134/12), authorised on 22 March 2012 and practically completed during 2012. The expenses resulting from termination benefits in 2013 for completion of WRP 134/12 totalled €5,735 thousand.

The provisions recognised by the Bank to meet the commitments under the above mentioned labour agreement, which at 31 December 2016 totalled €7,029 thousand (€8,769 thousand at 31 December 2015), are recognised as liabilities under "Provisions - Pensions and other post-employment defined benefit obligations" in the accompanying balance sheet (see Note 21).

Labour Agreement of 14 February 2013

In addition, on 14 February 2013, within the framework of the Bank's Restructuring Plan, an agreement was signed by the majority of workers' representatives (81.52%) for a new Workforce Restructuring Plan (WRP 32/2013) on economic grounds, which included the following measures:

- The termination of a maximum of 1,850 contracts over the term of the WRP. A distinction was drawn between three groups:

  - Persons over the age of 54 at 31 December 2013 and with a minimum of 20 years' service, up to a maximum of 455 persons, were to receive the termination benefit (with a limit of €250 thousand) and contributions under the special agreement with the Social Security pursuant to the calculation system set out in the WRP.

  - Persons not included in the previous group and who voluntarily availed of the plan were to receive the compensation established for this group.

  - Compulsory termination of contracts up to the number of terminations set out in the WRP, with lower compensation than the previous groups.

- Inclusion of all workers affected by the foregoing measure in an Employment Placement Scheme.

- An agreement whereby in the event of transferring autonomous production units, the number of contract terminations scheduled in the WRP would be reduced by a number equivalent to those persons transferred through business succession. Consequently, in 2013 a total of 153 persons were transferred to Banco Etcheverría and 589 to EVO Banco, thereby maintaining jobs and saving on termination benefit costs.

- Geographical mobility: compensation of €6,000 was to be paid for transfers of over 50 km. Additionally, there was housing assistance if the transfer involved a change of residence, for a gross annual amount of €6,000 for three years.

- Measures for reduction and rescheduling of working times, most notably the allocation of up to 520 persons on a split shift to work in offices with an extended timetable, and workday reductions of 20% and 34% for a period of five years.

- Other cost saving measures, including the freeze on contributions in 2012, 2013 and 2014 to defined contribution pension plans for retirement (previously these were only suspended); non-accrual of variable remuneration in 2013, 2014 and 2015; suspension of the supplement for each three years of service in 2014, 2015 and 2016, and suspension of the accrual of the variable supplement in 2013, 2014 and 2015.

In addition, on 26 December 2014 a new agreement was signed by the Bank's management and by the majority of workers' representatives to undertake measures to substantially modify working conditions and for the non-application of the collective bargaining agreement, as provided for in articles 41 and 82.3 of the Workers' Statute. This agreement amended the Labour Agreement of 14 February 2014 under the following terms:

- Measures for non-application of the collective bargaining agreement: suspension of the accrual of the variable supplement regulated in article 43 of the Collective Bargaining Agreement was extended through 2016, and contributions to the defined contribution pension plans were frozen in 2015.

- Abolition of compulsory termination of contracts as a result of the Labour Agreement of 14 February 2013. However, the possibility of voluntarily availing of the paid leave scheme set out in

Chapter II of the aforementioned labour agreement was to remain in force until 31 December 2015.

At 31 December 2016, the provisions recognised to meet the commitments in the labour agreement signed and its subsequent amendments, which total €29,407 thousand (€41,682 thousand at 31 December 2015), are recognised as liabilities under "Provisions - Pensions and other post-employment defined benefit obligations" in the accompanying balance sheet (see note 21).

Lastly, the Bank has agreements with some of its executives to compensate them when they end their relationship with the Bank, provided that this can be decided by the Bank, in which case the amount of this remuneration will be taken to the statement of profit or loss when the decision to terminate employment is taken and the employee is notified thereof (see Note 4.5).

2.13. Income tax

The income tax expense for the year is recognised in the statement of profit or loss, except when it results from a transaction recognised directly in equity, in which case the income tax is also recognised in equity of the Bank.

In accordance with the applicable legislation, the income tax expense is generally calculated as the tax payable with respect to the taxable profit for the year, adjusted for the amount of the changes in assets and liabilities in the year arising from temporary differences, and for tax credits and possible tax loss carryforwards (see Note 26).

The Bank considers that there is a temporary difference when there is a difference between the carrying amount and the tax base of assets and liabilities. The tax base of assets and liabilities is considered to be the amount attributable to the item for tax purposes. A taxable temporary difference is any difference that generates a future obligation for the Bank to settle certain amounts to public entities. A deductible temporary difference is any difference that generates for the Bank a certain right to recover payments from or reduce payments to public entities in the future.

Tax credits and deductions and tax loss carryforwards are amounts that, after occurrence or performance of the activity or obtainment of the profit or loss carrying the right to them, are not applied for tax purposes in the corresponding tax return until the conditions to do so established in the tax regulations are met, it being considered probable that they will be applied in future periods.

Current tax assets and liabilities are taxes that are expected to be recoverable from, or payable to the taxation authorities within 12 months after the date of recognition. Deferred tax assets and liabilities are those amounts that are expected to be recovered from, or payable to the taxation authorities in future years.

The Bank recognises a deferred tax asset or liability for all taxable temporary differences. Nevertheless, deferred tax liabilities deriving from the recognition of goodwill are not recorded.

The above notwithstanding, in 2016 and 2015 the Bank only recognised deferred tax assets arising from deductible temporary differences, tax credits and deductions or tax loss carryforwards in accordance with the provisions of Royal Decree-Law 14/2013 or, where appropriate, when the following conditions were met:

1. It is considered probable that the Bank will obtain sufficient taxable profit in the future against which the deferred tax assets may be offset; and

2. They result from identifiable causes which, in the case of deferred tax assets derived from tax loss carryforwards, are unlikely to recur.

No deferred tax assets or liabilities are recorded on initial recognition of an asset or liability that is not a result of a business combination and which would not affect accounting or taxable income on recognition.

The deferred tax assets and liabilities recognised are reassessed at the end of each reporting period in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed (see Note 26.4.a)).

To this end, at 31 December 2016 and 2015, Royal Decree-Law 14/2013, of 29 November, on urgent measures to adapt Spanish law to European Union legislation regarding the supervision and solvency of financial institutions, published in the Official State Gazette ("BOE"), was taken into consideration. This Royal Decree-Law, which came into force on 1 January 2014, appended additional provision twenty-two to the Revised Income Tax Law, which provides for the conversion of deferred tax assets into tax credits receivable from the taxation authorities. Note 26 provides details of the impact of this regulation on the deferred taxes recognised by the Group in 2016 and 2015.

The tax loss carryforwards generated prior to the creation of the tax group must be recovered through profits of the companies that generated them or through profits of the companies where the impaired assets that gave rise to the tax loss carryforwards are located.

The Bank opted to file consolidated tax returns for tax periods beginning on or after 1 January 2009, as provided for in Chapter VII, Title VII of the Consolidated Corporate Income Tax Law approved by Royal Legislative Decree 4/2004, of 5 March (hereinafter, "CCITL").

2.14. Tangible assets

2.14.1. Tangible assets for own use

Tangible assets for own use include assets owned or acquired under lease financing which the Bank holds for current or future use for administration purposes, or for the production or supply of goods, and which are expected to be used for more than one financial year. This category includes tangible assets received by the Bank for the full or partial settlement of receivables from third parties and which are expected to be allocated for own use for an extended period of time. Tangible assets for own use are carried at cost of acquisition, which is equal to the fair value of the consideration given plus all monetary expenditure incurred or committed, less:

1. Accumulated depreciation and,

2. Where appropriate, any estimated losses resulting from comparing the carrying amount of each item with its recoverable amount.

For these purposes, the cost of acquisition of foreclosed assets which become part of the Bank's tangible assets for own use is similar to the net amount of financial assets transferred in exchange for foreclosure.

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

Depreciation for the year is recognised under "Amortisation and depreciation - Tangible assets" in the statement of profit or loss and is calculated using the following depreciation rates (based on the average estimated years of useful life of the various assets):

	Years of Estimated Useful Life
Buildings for own use	75
Furniture and fixtures	10 to 15
Motor vehicles	5 to 10
Other	4 to 10

Certain IT equipment is depreciated on a declining basis over four years (40%, 30%, 20% and 10%).

During 2015 the Bank revised the estimated useful lives of various items recognised as tangible assets for own use. This revision, considered a change in estimates, did not have a significant impact.

At each accounting close, the Bank assesses whether there are internal or external indications that the carrying amount of tangible assets exceeds their recoverable amount, in which case the carrying amount of the asset is written down to its recoverable amount. Simultaneously, future depreciation charges are adjusted in proportion to the adjusted carrying amount and the new remaining useful life, if this were also estimated, and the related impairment is recognised under "Impairment or reversal of impairment on non-financial assets" in the statement of profit or loss.

Similarly, when there are indications that an impaired tangible asset has recovered its value, the Bank recognises the reversal of the impairment booked in prior years with a credit to "Impairment or reversal of impairment on non-financial assets" in the statement of profit or loss and the corresponding future depreciation charges are adjusted accordingly. The reversal of an impairment loss on an asset will in no case constitute an increase in its carrying amount above the value it would have if no impairment losses had been recognised in prior years.

The estimated useful lives of tangible assets for own use are also reviewed at least annually and any significant changes are recorded by adjusting the depreciation charges in the statements of profit or loss for subsequent years.

Repairs and maintenance costs of PPE assets for own use are recognised under "Other administrative expenses" in the statement of profit or loss in the year in which they are incurred.

The cost of acquisition or production of tangible assets which require more than one year to be in working condition includes finance costs accrued prior to their entering service, which have been charged by suppliers or relate to loans or any other type of external financing directly attributable to the acquisition, manufacture or construction. The capitalisation of finance costs is suspended during the years in which development of the asset is discontinued and ceases when all activities required to prepare the asset for its expected use or purpose are substantially completed.

2.14.2. Investment property

"Tangible assets - Investment property" reflect the carrying amount of land, buildings and other constructions, which are held either for rental or to obtain gains on their sale, as a result of possible future increases in their market price.

The criteria applied to recognise investment property, calculate depreciation and estimate their respective useful lives, as well as to recognise possible impairment losses, are the same as those applied for tangible assets for own use (see Note 2.14.1).

2.15. Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance either arising from a legal transaction or developed internally by the Bank. Intangible asset are solely recognised when the Bank considers it probable that the expected future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably.

Intangible assets other than goodwill are recognised initially at cost of acquisition or production, and are subsequently measured at cost less any accumulated amortisation and, where appropriate, impairment losses.

Intangible assets are amortised based on their useful life, using the same criteria applied to depreciate tangible assets. The annual amortisation charge for intangible assets is recognised under "Amortisation and depreciation – Intangible assets" in the statement of profit or loss.

The Bank recognises any impairment losses on these assets with a balancing entry under "Impairment or reversal of impairment on non-financial assets" in the statement of profit or loss. The criteria for recognising impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those applied to tangible assets for own use (see Note 2.14.1).

2.16. Provisions and contingent liabilities

Provisions are present obligations of the Bank arising from past events that could have a negative effect on the Bank's equity, occurrence of which is considered probable and the nature of which is specific, although their amount and/or settlement date are uncertain.

Contingent liabilities are possible obligations arising from past events and whose existence is conditional on the occurrence or non-occurrence of one or more future events beyond the control of the Bank. They include the present obligations of the Bank when it is not probable that an outflow of resources embodying economic benefits will be required to settle them or when their amount cannot be measured with sufficient reliability.

The annual accounts include all significant provisions for which it is considered more likely than not that the obligation will have to be settled (see Note 21). Contingent liabilities are not recognised in the balance sheet, although information on any such liabilities is disclosed in the notes, in accordance with Bank of Spain Circular 4/2004.

Provisions are measured on the basis of the best information available at each reporting date on the consequences of the outcomes of the event, and are assessed at each balance sheet date. They are utilised to meet the specific obligations for which they were originally recognised, and are partially or fully reversed when such obligations cease to exist or are reduced.

Provisions considered necessary in accordance with the above criteria are recognised with a debit or credit to “Provisions or reversals of provisions” in the statement of profit or loss.

Legal proceedings and/or claims underway. Contingent liabilities

At 31 December 2016, various legal proceedings and claims amounting to €304 million had been filed against the Bank (€258 million at 31 December 2015), which the Bank has considered contingent liabilities. This amount includes the claims lodged against the Bank and against the FROB by some of the Bank’s former shareholders, seeking the sale of the Bank’s shares conferred at that time to be declared null and void and the reimbursement of the amounts paid by each shareholder. The total amount of these claims was €65 million at 31 December 2016 (€65 million at 31 December 2015). The remaining proceedings and claims at 31 December 2016 are claims arising from the ordinary course of the Bank's business. Both the Bank’s legal advisers and its directors consider that the outcome of these proceedings and claims will not lead to an outflow of resources from the Bank and therefore no liability has been recognised for this item in these annual accounts.

2.17. Statement of cash flows.

The following terms are used in the statement of cash flows:

1. Cash flows: inflows and outflows of cash and cash equivalents, the latter being short-term, highly liquid investments subject to a low risk of changes in value.

2. Operating activities: typical activities of credit institutions and other activities that cannot be classified as investing or financing. Operating activities also include interest paid on any financing received, even when this is considered as financing activities. For the purposes of this statement, activities carried out involving the different categories of financial instruments described in Note 2.2 are considered as operating activities, except for items held to maturity, subordinated financial liabilities and investments in equity instruments classified as available for sale which are strategic investments. Strategic investments are those made with the intention of establishing or maintaining a long-term operating relationship with the investee, in light of a circumstance that could indicate the existence of significant influence, when such significant influence does not actually exist.

3. Investing activities: the acquisition, sale or other disposal of non-current assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments in subsidiaries, joint ventures and associates, non-current assets and disposal groups classified as held for sale and associated liabilities, equity instruments classified as available for sale which are strategic investments, and debt instruments held to maturity.

4. Financing activities: activities that result in changes in the size and composition of equity and of liabilities that do not form part of operating activities, such as subordinated liabilities.

When preparing the statement of cash flows, current highly-liquid investments with a low risk of change in value have been considered as cash and cash equivalents. The Bank therefore considers the balances recognised under "Cash, cash balances with Central Banks and other demand deposits" in the balance sheet as cash and cash equivalents.

2.18. Acquisition and sale of assets with a resale or repurchase agreement

Purchases of financial instruments with an obligatory resale commitment at a determined price ("repos") are recognised as financing granted under "Loans and advances - Credit institutions" or "Loans and advances - Customers", as applicable. Sales of financial instruments with an obligatory repurchase commitment at a determined price are recognised as financing received under "Financial liabilities at amortised cost - Deposits from credit institutions" or "Financial liabilities at amortised cost - Deposits from customers", as applicable. The difference between the purchase and sales price is recognised as interest over the life of the contract.

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

Non-current assets and disposal groups classified as held for sale include the carrying amount of financial and non-financial assets that are not used in the Bank's operating activities, the carrying amount of which is expected to be recovered through their disposal.

Non-current assets and disposal groups classified as held for sale essentially comprise foreclosed real estate assets, investment property and assets for own use.

The value at which real estate assets foreclosed or received in payment of debt must be initially recognised, regardless of the legal form used, shall be the lower of:

a) The carrying amount of the financial assets applied, calculated as indicated in the following paragraph, and

b) The fair value at the date of foreclosure or receipt of the asset less the estimated costs to sell.

The lesser of these two amounts shall be deemed to be the initial cost of the asset foreclosed or received in payment of debt.

For the purposes of calculating the carrying amount of the financial assets applied, at the date of initial recognition of the asset foreclosed or received in payment of debt the allowances or provisions for these financial assets shall be estimated on the basis of their accounting classification before the delivery, treating the asset foreclosed or received in payment of debt as collateral.

This carrying amount shall be compared with the previous carrying amount and the difference shall be recognised as an addition to or release of allowances and provisions, as applicable.

To estimate the allowances and provisions for the financial assets applied, the recoverable amount of the collateral shall be taken as the fair value less the estimated costs to sell of the asset foreclosed or received in payment of debt, provided that the entity's experience of sales bears out its ability to realise the asset at its fair value.

For the purposes of the preceding paragraph, the entity's experience of sales shall be considered to bear out its ability to realise the asset at its fair value if the entity has a high rotation of its stock of similar assets, such that the average period they remain on its balance sheet is acceptable within the framework of the related asset disposal plans.

In the event that the carrying amount of the non-current assets held for sale exceeds fair value less cost to sell, the Bank adjusts the carrying amount of the assets for the amount of this excess, with a balancing entry in "Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" in the consolidated statement of profit or loss. In the event of any subsequent increase in the fair value of an asset, the Bank proceeds to the reversal of previously recognised losses, and to increase the carrying amount of the asset up to the carrying amount prior to the eventual impairment of the asset less costs to sell, with a balancing entry in the above mentioned line item.

At 31 December 2016 the Bank applied the changes introduced by Bank of Spain Circular 4/2016, of 27 April, updating Circular 4/2004 to reflect the latest developments in banking regulation that had come into force on 1 October 2016. In accordance with the legislation applicable to the Bank, the Circular has been applied prospectively, inasmuch as it entails a change in accounting estimates. On the basis of its experience, the Bank has developed internal calculation methods to estimate the discount rate applicable to the reference value of collateral, the costs to sell associated with foreclosed assets, and the rotation of assets classified as completed dwellings, offices, commercial premises and multi-purpose industrial buildings. For the remaining categories the Bank has applied an alternative solution to estimate the discount rate applicable to the reference value.

Gains or losses on the sale of non-current assets and disposal groups classified as held for sale are recognised under "Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" in the statement of profit or loss.

Any significant income and expenses from discontinued operations are recognised, net of tax, as a single amount under "Profit or loss after tax from discontinued operations" in the statement of profit or loss.

Nonetheless, financial assets, assets deriving from employee benefit plans, deferred tax assets and insurance contract assets which form part of a disposal group or a discontinued operation are not measured using the criteria described in the preceding paragraphs, but rather in accordance with applicable accounting principles, which have been explained in previous sections.

2.20. Statement of changes in equity

The statement of changes in equity included in the accompanying annual accounts shows all changes in the Bank's equity during the year ended 31 December 2016. This information is disclosed in two statements: the statement of recognised income and expense and the statement of total changes in equity. The main characteristics of the information contained in the two parts of this statement are as follows:

2.20.1. Statement of recognised income and expenses

This part of the statement of changes in equity includes income and expenses generated or incurred by the Bank during the year in the ordinary course of business, distinguishing between those recognised in the statement of profit or loss for the year and those recognised directly in equity, in accordance with legislation in force.

This statement therefore comprises the following:

a. Profit or loss for the year

b. Net income and expenses recognised as accumulated other comprehensive income in equity.

c. Net income and expenses recognised permanently in equity.

d. Accrued income tax payable or recoverable on continuing operations in respect of the items listed in points b) and c) above.

e. Total recognised income and expenses, calculated as the sum of the preceding points.

The changes in income and expenses recognised in equity as accumulated other comprehensive income are as follows:

a. Valuation gains (losses): income, net of expenses incurred during the year, recognised directly in equity. Amounts recognised in this line item during the year continue to be carried at the initial value of other assets or liabilities, even when they are transferred to the statement of profit or loss in the same year, or they are reclassified to another line item.

b. Amounts transferred to profit or loss: valuation gains or losses previously recognised in equity, even in the same period, which are accounted for in the statement of profit or loss.

c. Amounts transferred to the initial value of hedged items: valuation gains or losses previously recognised in equity, even in the same period, which are accounted for in the initial value of assets or liabilities as a result of cash flow hedges.

d. Other reclassifications: transfers between valuation adjustments during the year in accordance with criteria established under prevailing legislation.

2.20.2. Statement of total changes in equity

The statement of total changes in equity presents all changes in equity, including those arising from changes in accounting principles and corrections of errors. This statement shows a reconciliation of the opening and closing carrying amount of all items comprising equity, grouping changes according to their nature, as follows:

a. Effect of changes in accounting criteria and correction of errors: changes in equity due to the retrospective restatement of balances in the financial statements as a result of changes in accounting criteria or the correction of errors.

b. Total comprehensive income for the year: the aggregate amount of the aforementioned items recognised in the statement of recognised income and expense.

c. Other changes in equity: the remaining items recognised in equity, such as increases or decreases in assigned capital, distribution of profit or application of losses, transactions with own equity instruments, equity-settled payments, transfers between consolidated equity line items and any other increases or decreases in equity.

3. Distribution of profit/application of loss of the Bank and earnings per share

a) Distribution of profit/application of loss of the Bank

The proposed distribution of the Bank's profit for 2016 to be submitted by the directors for approval by the shareholders at their general meeting, and the distribution of profit for 2015 approved by the shareholders at their general meeting, is as follows:

	Thousands of euros	
	2016	2015
Voluntary reserves	339	3,343
Dividends	315,405	315,479
	315,744	**318,822**

In accordance with the minutes to the board of directors' meeting held on 2 February 2017, an interim dividend for 2016 amounting to €315,405 thousand was distributed to the shareholders on 3 February 2017.

The amount to be distributed does not exceed the profits reported by the Bank since the end of the previous reporting period, after deducting the estimated income tax payable on these profits, as required by article 277 of the Consolidated Companies Law.

The provisional liquidity statement prepared by the Bank in accordance with legal requirements, which shows sufficient resources to cover the payment of this dividend, is as follows:

Profit or loss obtained between 01/01/2016 and 31/12/2016 (thousands of euros)	315,744
Distributable profit (thousands of Euros)	315,744
Interim dividend proposed on 2 February 2017 (thousands of Euros)	315,405
Gross dividend per share	0.1285

b) Earnings per share

i. Basic earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the year by the weighted average number of shares outstanding in the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2016	2015
Net profit or loss for the year (thousands of euros)	315,744	318,822
Net profit or loss from ordinary activity (thousands of euros)	315,744	318,822
Weighted average number of outstanding shares	2,453,657,413	2,453,657,413
Weighted average of treasury shares	214,921,489	198,229,907
Adjusted number of shares	2,238,735,924	2,255,427,506
Basic earnings per share (euros)		
Net profit or loss for the year	0.1410	0.1414
Net profit or loss from ordinary activity	0.1410	0.1414

ii. Diluted earnings per share

In order to calculate the diluted earnings per share, the net profit for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, net of treasury shares, must be adjusted for all dilutive effects inherent in potential ordinary shares (stock options, warrants and convertible debt).

At 31 December 2016 and 2015 the Bank has not issued any instruments convertible into shares of the Bank or which grant privileges or rights which could, as a result of a contingency, allow them to be converted into shares, and there is therefore no dilutive effect.

The diluted earnings per share for 2016 and 2015 were determined as follows:

	2016	2015
Net profit or loss for the year (thousands of euros)	315,744	318,822
Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares	-	-
	315,744	318,822
Weighted average number of outstanding shares	2,238,735,924	2,255,427,506
Dilutive effect from:		
Warrants	-	-
Adjusted average number of shares for calculation	2,238,735,924	2,255,427,506
Diluted earnings per share (euros)	0.1410	0.1414

4. Remuneration of the Board of Directors and Senior Management

4.1. Remuneration of the board of directors

Details of remuneration and allowances accrued by members of the Bank's board of directors in 2016 and 2015 are as follows:

	Thousands of euros	
	2016	2015
Mr. Javier Etcheverría de la Muela	275	275
Mr. Juan Carlos Escotet Rodríguez	265	22
Mr. Pedro Raúl López Jácome	300	290
Ms. Carina Szpilka Lázaro	232	220
Mr. Miguel Ángel Capriles López (*)	123	218
Mr. José Ramón Rodrigo Zarza	300	274
Mr. José García Montalvo	275	238
Mr. Ignacio Sánchez-Asiaín Sanz (**)	221	-
Mr. Eduardo Eraña Guerra (**)	42	-
	2,033	**1,537**

(**) Ceased to be a director of ABANCA Corporación Bancaria, S.A. on 28 June 2016.

(**) Appointed directors of ABANCA on 1 February 2016 and on 24 October 2016, respectively.

The remuneration corresponding to ABANCA's CEO, Mr Francisco Botas Ratera, for the performance of his executive functions in 2016, in accordance with the contract signed between him and the Bank, amounted to €2,601 thousand, of which €1 thousand is remuneration in kind and €1,300 thousand is variable remuneration for 2015, including both the portion effectively settled in 2016 (i.e. 40% thereof, amounting to €520 thousand) and the portion deferred to subsequent years (60% thereof, amounting to €780 thousand). Inasmuch as the appointment as ABANCA's CEO occurred during 2014, the variable remuneration accrued in that year and therefore received in 2015 does not relate to the full year. Had this been the case, there would be no difference between the variable remuneration received (deferred and not deferred) in 2015 and 2016.

Retirement benefits (pension commitment) amounting to €32.5 thousand were also paid for the CEO, applying the same 50% reduction as for the rest of the workforce (contributions were suspended in 2015).

The accumulated amount of the vested rights and mathematical provisions totalled €43 thousand at 31 December 2016 (€10 thousand at 31 December 2015).

4.2. Remuneration of senior management

When preparing these annual accounts, 12 people were considered senior management personnel in 2016 (the same number and individuals considered in 2015). For these purposes, senior management comprises general managers and people holding similar positions that carry out management duties reporting directly to the governing bodies, executive committees or the CEO. The CEO is not included and information thereon can be found in Note 4.1 above.

The remuneration accrued by the members of the Bank's senior management personnel, as defined above, totalled €4,214 thousand in 2016 (€3,668 thousand in 2015).

During 2016 and 2015 no termination benefits were paid to senior management personnel.

These amounts include total remuneration (fixed, monetary and in-kind) and variable remuneration, the latter comprising the amounts effectively paid during 2016 (for this personnel segment, 60% of accrued variable remuneration) and the amounts deferred to subsequent years (i.e. 40% of accrued variable remuneration). It should also be noted that 50% of the accrued variable remuneration (paid and/or deferred) is settled in shares of the Entity, a measure first implemented in 2016.

4.3. Pension and insurance commitments with senior management personnel

The accumulated amount of the vested rights and mathematical provisions generated through contributions by the Bank to pension plans for senior management personnel, with regard to rights for past services, totalled €758 thousand in 2016 (€711 thousand in 2015 for the aforementioned personnel).

In 2016 contributions were made for retirement, either to pension plans or to supplementary insurance taken out for senior management personnel, amounting to €26 thousand, following application of the 50% reduction stipulated in the labour agreement of 26 December 2014. (In 2015 these contributions were suspended in accordance with this agreement.)

The life insurance premiums paid for senior management personnel and the CEO (other than pension commitments) totalled €19.5 thousand in 2016 (€21.7 thousand in 2015), with an insured sum of €300 thousand per person.

4.4. Other transactions with board members and senior management personnel

The breakdown at 31 December 2016 and 2015 of assets and liabilities balances relating to transactions of the Bank with Directors and senior management is as follows:

At 31 December 2016

	Thousands of euros		
	Assets – Loans and receivables	Liabilities – Deposits	Contingent liabilities
Senior Management and Directors	4,466	11,731	-

At 31 December 2015

	Thousands of euros		
	Assets – Loans and receivables	Liabilities – Deposits	Contingent liabilities
Senior Management and Directors	4,139	3,412	-

The breakdown of income and expenses recognised in the statements of profit or loss for 2016 and 2015 relating to transactions carried out by these groups with the Bank are as follows:

Financial Year 2016

	Thousands of euros		
	Finance income	Finance expenses	Fee and commission income
Senior Management and Directors	42	44	15

Financial Year 2015

	Thousands of euros		
	Finance income	Finance expenses	Fee and commission income
Senior Management and Directors	46	32	9

At 31 December 2016 loans and credits extended to Directors and their related companies, and to senior management, accrued annual interest ranging from 0.20% to 5.50% (at 31 December 2015, annual interest ranging from 0.35% to 5.50%).

At 31 December 2016 and 2015 there were no other commitments or guarantees of any kind, besides those indicated above, with current or former members of the board of directors or senior management personnel.

4.5. Senior management indemnity clauses

At 31 December 2016, the contracts of four members of senior management include compensation for all items, in the event of unfair dismissal or termination, at the request of the Entity, for an amount of €660 thousand, €549 thousand, €196 thousand and €303 thousand, respectively (three members for an amount of €549 thousand, €192 thousand and €375 thousand, respectively, at 31 December 2015). In no case does this compensation exceed two years' pay.

5. Cash, cash balances with Central Banks and other demand deposits

The breakdown of the balance of this item on the balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Cash	142,777	156,250
Cash balances with Central Banks	237,036	273,589
Other demand deposits	116,307	269,138
	496,120	**698,977**

Note 43 includes a breakdown of the maturity periods of these assets at the 2016 and 2015 reporting dates, as well as the average annual interest rates.

6. Loans and advances to credit institutions

a) Breakdown

The breakdown of this caption in the balance sheet at 31 December 2016 and 2015, by classification, currency and type of transaction, is as follows:

	Thousands of euros	
	2016	2015
Currency:		
Euro	86,819	507,886
Foreign currency	214,343	239,094
	301,162	746,980
Nature:		
Time deposits	301,162	746,980
Repurchase agreements	-	-
Other accounts	-	-
	301,162	746,980
Valuation adjustments:		
Impairment losses on assets	-	-
Accrued interest	706	752
Micro-hedges	193	737
	301,675	746,995

Note 43 includes a breakdown of the maturity periods of these assets at the 2016 and 2015 reporting dates, as well as the average annual interest rates.

b) Valuation adjustments – Impairment losses

During 2016 and 2015 there were no changes in the provisions for impairment losses on loans and advances to credit institutions.

7. Debt securities

a) Breakdown

The breakdown of this caption in the balance sheet at 31 December 2016 and 2015, by classification, currency, geographical area and type of transaction, is as follows:

	Thousands of euros	
	2016	2015
Classification:		
Available-for-sale financial assets	5,580,452	7,860,043
Held-to-maturity investments	-	-
Financial assets held for trading	-	97,100
Loans and receivables	3,734,502	3,920,400
	9,314,954	**11,877,543**
Currency:		
Euro	9,314,954	11,843,991
Foreign currency	-	33,552
	9,314,954	**11,877,543**
Geographical area:		
Spain	8,369,297	10,070,339
European Union (excluding Spain)	945,657	1,749,176
United States of America and Puerto Rico	-	39,537
Rest of the world	-	18,491
	9,314,954	**11,877,543**
Nature:		
Domestic debt securities		
Treasury Bills	-	-
Government mid- and long-term bonds	3,556,407	4,618,985
Other book-entry debt securities	840,129	1,007,499
Foreign debt securities		
Republic of Italy	168,588	559,483
Republic of Portugal	630,115	726,098
Issued by financial institutions	122,651	646,038
Other fixed income securities	3,997,064	4,319,440
	9,314,954	**11,877,543**
Valuation adjustments:		
Impairment losses on assets	(472)	(9,145)
Micro-hedges	37,505	16,833
	9,351,987	**11,885,231**

At the 2016 reporting date the Bank had pledged debt securities for a nominal amount of €3,741,376 thousand (€4,302,767 thousand at 31 December 2015), and a market value of €3,639,327 thousand (€4,101,085 thousand at 31 December 2015), in order to gain access to financing from the European Central Bank.

In addition, at 31 December 2016 the Bank had assigned securities amounting to €1,930,358 thousand to credit institutions and customers (€2,126,032 thousand at 31 December 2015) (see notes 16 and 17).

Note 43 includes a breakdown of the maturity periods of these assets at the 2016 and 2015 reporting dates, as well as the average annual interest rates.

The loans and receivables portfolio includes the bonds issued by Sareb in payment of the assets transferred by the Bank and its subsidiaries. The fair value amounted to €3,734,502 thousand at 31 December 2016 (€3,920,400 thousand at 31 December 2015).

The inputs used for valuation, through discounting cash flows, were the quoted prices of Spanish debt with a similar maturities, ensuring that the option to extend maturity did not entail significant changes to the fair value. The bonds issued by Sareb are listed on the AIAF fixed-income market and are underwritten by the Spanish State. At 31 December 2016 and 2015, the bonds issued by Sareb have the following characteristics:

At 31 December 2016

ISIN	Issue	Maturity (*)	Thousands of euros		Interest rate
			Nominal	Fair Value	
ES0352506168	Sareb senior bonds	31/12/2017	1,404,700	1,404,700	3-month Euribor + 3 b.p.
ES0352506135	Sareb senior bonds	31/12/2018	426,600	426,602	3-month Euribor + 38.9 b.p.
ES0352506176	Sareb senior bonds	31/12/2018	1,903,200	1,903,200	3-month Euribor + 4 b.p.
			3,734,500	**3,734,502**	

(*) The bond subscription contract sets out successive bond renewal options which may be exercised by the issuer at a maximum interest rate equivalent to 3-month Euribor plus 200 basis points.

At 31 December 2015

ISIN	Issue	Maturity (*)	Thousands of euros		Interest rate
			Nominal	Fair Value	
ES0352506093	Sareb senior bonds	31/12/2016	1,903,200	1,902,993	3-month Euribor + 42.8 b.p.
ES0352506127	Sareb senior bonds	31/12/2016	1,404,700	1,404,703	3-month Euribor + 19.9 b.p.
ES0352506135	Sareb senior bonds	31/12/2018	612,700	612,704	3-month Euribor + 38.9 b.p.
			3,920,600	**3,920,400**	

(*) The bond subscription contract sets out successive bond renewal options which may be exercised by the issuer at a maximum interest rate equivalent to 3-month Euribor plus 200 basis points.

In 2016 and 2015, changes in this item, excluding impairment losses and micro-hedges, were as follows:

	Thousands of Euros
Balance at 1 January 2015	**18,993,328**
Additions	28,327,456
Disposals and repayments	(35,186,450)
Cost adjustments	(208,298)
Accumulated other comprehensive income	(48,493)
Balance at 31 September 2015	**11,877,543**
Additions	27,567,868
Disposals and repayments	(29,949,342)
Cost adjustments	(159,669)
Accumulated other comprehensive income	(21,446)
Balance at 31 December 2016	**9,314,954**

During the first quarter of 2015 the Bank sold a significant portion of its portfolio of debt securities classified as held-to-maturity investments. The remaining financial assets in this category were reclassified to the portfolio of "Available-for-sale financial assets". As a result of the sale of held-to-maturity investments, the Bank will not be able to classify any amounts in this category in the coming year.

A gain of €295,519 thousand was generated on sales of held-to-maturity investments in 2015 (see note 33).

Gains on sales of available-for-sale financial assets and financial assets held for trading totalled €52,025 thousand and €3,801 thousand, respectively, in 2016 (€24,311 thousand on sales of available-for-sale financial assets in 2015) (see note 33).

b) Valuation adjustments – Impairment losses

In 2016 and 2015, changes in the in provisions for impairment losses on debt securities were as follows:

	Thousands of Euros
Balance at 1 January 2015	**8,257**
Transfers from loans and advances - Customers (Note 9-d)	888
2015 Closing balance	**9,145**
Transfers to loans and advances - Customers (Note 9-d)	(8,673)
Balance at 31 December 2016	**472**

8. Equity instruments

a) Breakdown

At 31 December 2016 and 2015, the breakdown, by classification, currency, listing, geographical area and type of transaction, of this caption in the balance sheet is as follows:

	Thousands of euros	
	2016	2015
Classification:		
Available-for-sale financial assets	142,890	185,227
	142,890	**185,227**
Currency:		
Euro	142,890	185,227
	142,890	**185,227**
Listing:		
Listed	98,538	144,090
Unlisted	44,352	41,137
	142,890	**185,227**
Geographical area:		
Spain	127,847	143,302
European Union (excluding Spain)	15,043	41,925
	142,890	**185,227**
Nature:		
Shares in Spanish companies	52,934	56,580
Shares in foreign companies	15,043	41,925
Investment funds shares/units	74,913	86,722
	142,890	**185,227**
Valuation adjustments:		
Impairment losses	(34,460)	(42,347)
	108,430	**142,880**

In 2016, the Bank received dividends totalling €5,836 thousand on these investments, which have been recognised under dividend income in the accompany statement of profit or loss (€2,628 thousand in 2015) (see Note 30).

The gain on sales of available-for-sale financial assets in 2016 totalled €5,075 thousand (€13,276 thousand in 2015) (see Note 33).

Changes, excluding impairment losses, in the balance of this caption in the balance sheet in 2016 and 2015 were as follows:

	Thousands of Euros
Balance at 1 January 2015	**234,048**
Purchases	140,833
Disposals	(177,343)
Accumulated other comprehensive income on equity	(11,167)
Transfers to investments in subsidiaries, joint ventures and associates (Note 12)	(1,144)
2015 Closing balance	**185,227**
Purchases	84,630
Disposals	(130,303)
Accumulated other comprehensive income on equity	3,336
Balance at 31 December 2016	**142,890**

b) Acquisitions and disposals

The acquisitions and disposals carried out by the Bank in 2016 and 2015 relate mainly to the sale-purchase of listed securities and units/shares in investment funds.

c) Valuation adjustments – Impairment losses

In 2016 and 2015, changes in the provisions for impairment on these assets were as follows:

	Thousands of Euros
Balance at 1 January 2015	**46,205**
Allowances	10,264
Transfers to investments in subsidiaries, joint ventures and associates (Note 12)	(835)
Derecognition on disposal	(13,287)
2015 Closing balance	**42,347**
Use of provisions	(7,887)
Balance at 31 December 2016	**34,460**

9. Loans and advances to customers

a) breakdown-

The breakdown of the balance of this caption in the balance sheet at 31 December 2016 and 2015, showing the Bank's exposure to credit risk in its primary activity, broken down by instrument and status of transactions, borrower's sector, borrower's geographical area of residence, type of interest rate and currency of transactions, is as follows:

	Thousands of euros	
	2016	2015
Instrument and status:		
Commercial loans	721,394	576,661
Secured loans	16,384,355	16,689,756
Demand and other loans	1,086,351	1,064,212
Other term loans	8,690,961	7,449,729
Impaired assets	2,153,205	2,695,460
	29,036,266	**28,475,818**
Borrower's sector:		
Spanish general government	2,475,473	2,107,769
Other resident sectors	24,397,292	24,312,001
Non-resident	2,163,501	2,056,048
	29,036,266	**28,475,818**
Geographical area:		
Spain	26,872,765	26,419,770
European Union (excluding Spain)	1,429,375	1,257,798
United States of America and Puerto Rico	199,330	221,958
Other OECD countries	445,915	515,719
Latin America	56,789	49,796
Rest of the world	32,092	10,777
	29,036,266	**28,475,818**
Type of interest rate:		
Fixed interest rate	4,597,488	4,568,262
Floating interest rate	24,438,778	23,907,556
	29,036,266	**28,475,818**
Currency:		
Euros	28,090,202	27,620,098
Foreign currency	946,064	855,720
	29,036,266	**28,475,818**
Valuation adjustments		
Impairment losses	(1,073,050)	(1,640,094)
Accrued interest	39,409	24,647
Commissions	(54,086)	(57,436)
Discount on acquisition	(5,649)	(5,610)
Micro-hedges	(1,694)	-
	27,941,196	**26,797,325**

Note 43 includes a breakdown of the maturity periods of these assets at the 2016 and 2015 reporting dates, as well as the average annual interest rates.

At the 2016 reporting date, the Bank had pledged loans and receivables for an amount of €1,853,293 thousand (€1,458,349 thousand at 2015 year-end) as security for the credit system operations of the European Central Bank.

At 31 December 2016 and 2015 there were no loans and advances to customers for significant amounts without fixed maturity dates.

At 31 December 2016 the Bank has recognised loans and advances to customers arising from extraordinary lending activities amounting to €525,434 thousand (€394,055 thousand at 31 December 2015).

Information on the credit risk assumed by the Bank in relation to these financial assets is provided in Note 44. Certain information on the liquidity and interest risks assumed by the Bank with regard to these assets is provided in Notes 41 and 45, respectively.

b) Finance leases

The reconciliation between the total gross investment in the leases and the present value of minimum lease payments receivable at 31 December 2016 and 2015, is as follows:

	Thousands of euros	
	2016	2015
Minimum lease payments receivable	251,212	226,592
Non-guaranteed residual value	36,916	35,429
Gross investment in the lease(*)	**288,128**	**262,021**

(*) Includes impaired assets.

At 31 December 2016, the accumulated allowance for uncollectible minimum lease payments receivable totals €19,335 thousand (€16,270 thousand at 31 December 2015) and relates to guarantees extended, requested by counterparties in arranging transactions with derivatives, or enforceable guarantees granted, recognised or pending recognition by third parties.

c) Securitisations

On 20 May 2016 the Bank, as the transferor, carried out an asset securitisation operation by assigning to the fund "HT ABANCA RMBS I, Fondo de titulización" a number of rights to receivables arising from mortgage loans extended to individuals for an amount of €900 million. The Bank was awarded all of the bonds making up the "HT ABANCA RMBS I, Fondo de titulización" securitisation issue managed by Haya Titulización Sociedad Gestora de Fondos de Titulización, S.A.U.

During 2015 the Group did not securitise loans from its portfolio.

At 31 December 2016, the carrying amount of the assets transferred totalled €1,804,429 thousand (€973,525 thousand at 31 December 2015). At 31 December 2016 the carrying amount of liabilities associated with financial assets that have not been derecognised from the balance sheet, inasmuch as under the conditions agreed for the transfer of these assets the Bank retained substantially all risks and rewards associated therewith, totalled €1,804,429 thousand (€973,525 thousand at 31 December 2015).

Details of the Bank's securitisation funds at 31 December 2016 and 2015 are provided in Appendix III.

d) Impairment losses

Changes in the provisions for impairment losses on these assets during the years ended 31 December 2016 and 2015 are as follows:

	Thousands of Euros
Balance at 1 January 2015	**2,065,374**
Charges to profit or loss for the period	247,814
Transfers	
To provisions for fixed income portfolio (Note 7-b)	(888)
To provisions for contingent risk (Note 21-b)	(1,812)
To provisions for foreclosed assets	(24,555)
To provisions for investments in subsidiaries, joint ventures and associates (Note 12)	(75,388)
	(102,643)
Reversal of provisions on reclassification to write-off loans (Note 9-f)	(494,129)
Use of provisions for loan cancellation/waiver	(76,322)
2015 Closing balance	**1,640,094**
By method of calculation:	
Specific provisions(*)	*1,384,934*
Provisions for inherent losses(*)	*255,160*
Balance at 1 January 2016	**1,640,094**
Charges to profit or loss for the period	(97,498)
Transfers	
From fixed income portfolio (Note 7-b)	8,673
To provisions for contingent risk (Note 21-b)	(3,122)
To provisions for foreclosed assets	(11,935)
To provisions for investments in subsidiaries, joint ventures and associates (Note 12)	(48,704)
	(55,088)
Reversal of provisions on reclassification to write-off loans (Note 9-f)	(288,948)
Use of provisions for loan cancellation/waiver	(66,879)
Sale of loan portfolio(*)	(58,631)
Balance at 31 December 2016	**1,073,050**
By method of calculation:	
Individually measured(*)	*475,083*
Collectively measured(*)	*485,965*
Collective impairment allowances for losses incurred but not reported (*)	*112,002*

(*) As stated in note 1.4 above, at 31 December 2016 the Bank has prospectively applied the changes introduced by Circular 4/2016, insofar as they entail changes in accounting estimates. Consequently, some of the breakdowns included above are not comparable with the figures for 2015.

(**) The balance of this line item basically relates to derecognitions resulting from loan portfolios sold during 2016.

The following tables show impairment allowances, broken down by the factor used for their calculation:

Financial Year 2016

	Thousands of euros			
	Specific impairment allowances for financial assets, estimated individually	Specific impairment allowances for financial assets, estimated collectively	Collective impairment allowances for losses incurred but not reported	Total
Up to 6 months	32,720	77,445	3,855	114,020
Between 6 and 9 months	51,812	15,884	-	67,696
Between 9 and 12 months	22,077	16,300	-	38,377
More than 12 months	148,493	286,063	-	434,556
Performing	219,981	90,273	108,147	418,401
	475,083	**485,965**	**112,002**	**1,073,050**

Financial Year 2015

	Thousands of euros			
	Defaulted	Non performing other than by default	Provisions for inherent losses	Total
Up to 6 months	46,795	-	-	46,795
Between 6 and 9 months	44,061	-	-	44,061
Between 9 and 12 months	39,595	-	-	39,595
More than 12 months	599,899	-	-	599,899
Performing	-	654,584	255,160	909,744
	730,350	**654,584**	**255,160**	**1,640,094**

e) Assets impaired assets-

The breakdown of financial assets classified as loans and receivables and considered impaired due to credit risk is as follows:

Financial Year 2016

	Thousands of euros				
	Up to 6 months	Between 6 and 9 months	Between 9 and 12 Months	More than 12 months	Total
Impaired assets	1,098,344	131,653	81,280	841,928	2,153,205
	1,098,344	**131,653**	**81,280**	**841,928**	**2,153,205**

Financial Year 2015

	Thousands of euros				
	Up to 6 months	Between 6 and 9 months	Between 9 and 12 Months	More than 12 months	Total
Impaired assets	1,358,945	115,086	89,833	1,131,596	2,695,460
	1,358,945	**115,086**	**89,833**	**1,131,596**	**2,695,460**

At 31 December 2016 impaired assets broken down in the table above include secured exposures amounting to €1,597,562 thousand (€1,974,152 thousand at 31 December 2015). At 31 December 2016, impaired assets in the "Up to 6 months" column include €927,763 thousand in respect of exposures that are non-performing for reasons other than default (€1,187,496 thousand at 31 December 2015).

Assets that, although not considered impaired, include an amount that is past-due at 31 December 2016 and 2015 amount to €33,014 thousand and €36,457 thousand, respectively. The breakdown by term of these assets is as follows:

At 31 December 2016

	Thousands of euros			
	Less than 1 Month	More than 1 Month, but Less than 2 Months	More than 2 Months, but Less than 3 Months	Total
Amounts past due	29,788	2,129	1,097	33,014
	29,788	**2,129**	**1,097**	**33,014**

At 31 December 2015

	Thousands of euros			
	Less than 1 Month	More than 1 Month, but Less than 2 Months	More than 2 Months, but Less than 3 Months	Total
Amounts past due	21,191	8,516	6,750	36,457
	21,191	**8,516**	**6,750**	**36,457**

f) *Derecognition of impaired financial assets*

Changes in 2016 and 2015 in the Bank's impaired financial assets, which have not been recognised as the probability of their recovery is considered remote, although the Bank continues its efforts to collect the amounts receivable, are as follows:

	Thousands of Euros
Financial assets for which the probability of recovery is considered remote at 1 January 2015	**4,866,849**
Additions	
Balances for which recovery during the period is considered remote (Note 9-d)	494,129
Net allowance charged to profit or loss	125,576
Other (*)	142,026
Recoveries	
Cash receipt without additional refinancing	(89,159)
Derecognition due to foreclosures	(70,857)
Derecognition due to debt remission	(77,783)
Derecognition due to other reasons (**)	(23,918)
Financial assets for which the probability of recovery is considered remote at 31 December 2015	**5,366,863**
Additions	
Balances for which recovery during the period is considered remote (Note 9-d)	288,948
Net allowance charged to profit or loss	13,945
Other (*)	136,497
Recoveries	
Cash receipt without additional refinancing	(66,235)
Derecognition due to foreclosures	(41,890)
Derecognition due to debt remission	(38,557)
Derecognition due to sale of portfolio(**)	(1,448,690)
Derecognition due to other reasons (***)	(35,290)
Financial assets for which the probability of recovery is considered remote at 31 December 2016	**4,175,591**

(*) The balance recognised in this item primarily reflects past-due receivables.

(**) The balance recognised in this item primarily reflects derecognitions due to the sale of two loan portfolios in 2016, the gain on which was recognised under "Gains or losses on derecognition of non-financial assets and investments, net" (see note 38).

(***) The balance recognised in this item primarily reflects amounts considered definitively uncollectible.

Write-offs recovered in 2016 amount to €66,235 thousand and have been recognised under "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss – Loans and receivables" in the statement of profit or loss for 2016 (€89,159 thousand in 2015). In 2016 this line item in the accompanying statement of profit or loss also includes direct allowances for loans considered as write-offs in an amount of €13,945 thousand (€125,576 thousand in 2015).

g) Financing of real estate construction, property development and housing purchases

At 31 December 2016, financing extended for real estate construction and property development in the resident sector amounts to €682 million (€759 million at 31 December 2015), of which €80 million are impaired assets (€124 million at 31 December 2015), for which impairment had been recognised. At the reporting date, total accumulated impairment amounts to €49 million (€79 million at 31 December 2015).

The figures above reflect financing extended for real estate construction and property development. Consequently, following Bank of Spain instructions, the debtor's national classification of economic activities ("CNAE") code has not been taken into account. As a result, if the debtor: (a) is a real estate company but uses the financing for a purpose other than real estate construction or property development, the loan is not included in these tables, and (b) if the company's principal activity is not real estate construction or property development but it uses the loan to finance property development, it is included in these tables.

Quantitative information on the financing extended for real estate construction and property development and the related provisions at 31 December 2016 and 2015 is as follows:

At 31 December 2016

	Millions of euros		
	Gross carrying amount	Excess over in rem guarantee value	Accumulated impairment
Financing of real estate construction and property development	682	248	49
Of which: non-performing	*80*	*44*	*48*
Memorandum Item:			
Written-off assets (*)	4,176		
Loans to customers, excluding General government	26,561		
Total Assets(**)	45,018		
Impairment and provisions for exposures classified as performing (***)	88		

(*) Total write-offs of the Bank.

(**) Total operations (carrying amount).

(***) Total amount of impairment and provisions for exposures classified as performing

At 31 December 2015

	Millions of euros		
	Gross carrying amount	Excess over in rem guarantee value	Accumulated impairment
Financing of real estate construction and property development	759	219	79
Of which: non-performing	*124*	*64*	*69*
Memorandum Item:			
Written-off assets (*)	5,367		
Loans to customers, excluding General government	26,348		
Total Assets(**)	46,998		
Impairment and provisions for exposures classified as performing (***)	255		

(*) Total write-offs of the Bank.
(**) Total operations (carrying amount).
(***) Total amount of impairment and provisions for exposures classified as performing

The breakdown of financing to construction and property development (including land), by type of related guarantee, is as follows:

	Millions of euros	
	Gross carrying amount	
	31.12.16	31.12.15
Without real estate collateral	275	306
With real estate collateral	407	453
Buildings and other constructions completed		
Housing	*188*	*209*
Other	*154*	*183*
Buildings and other constructions in progress		
Housing	*28*	*22*
Other	*23*	*22*
Land		
Consolidated urban land	*13*	*16*
Other	*1*	*1*
Total	682	759

Loans to household for the house purchase

Quantitative information on household loans for the purchase of housing at 31 December 2016 and 2015 is as follows:

At 31 December 2016

	Millions of euros	
	Gross carrying amount	Of which: non-performing
Loans to household for house purchase	12,183	769
Without real estate mortgage	*609*	*42*
With real estate mortgage	*11,574*	*727*

At 31 December 2015

	Millions of euros	
	Gross carrying amount	Of which: non-performing
Loans to household for house purchase	12,757	895
Without real estate mortgage	*624*	*56*
With real estate mortgage	*12,133*	*839*

The breakdown at 31 December 2016 and 2015 of mortgage loans extended to households for the purchase of housing, in terms of the gross carrying amount as a percentage of the latest available appraisal value (*loan to value (LTV))*, is as follows:

At 31 December 2016

	Millions of euros				
	Gross carrying amount over the latest available appraisal (*LTV*)				
	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80% but less than or equal to 100%	Over 100%
Gross carrying amount	859	1,707	3,386	3,214	2,408
Of which: non-performing	18	46	125	153	385

At 31 December 2015

	Millions of euros				
	Gross carrying amount over the latest available appraisal (*LTV*)				
	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80% but less than or equal to 100%	Over 100%
Gross carrying amount	762	1,916	3,586	3,340	2,529

Of which: non-performing	12	42	141	164	478

Note 11 includes details of assets acquired and foreclosed, based on the purpose of the loan or credit initially extended, providing a breakdown of the gross value and the provision recognised at 31 December 2016 and 2015.

h) Refinancing and restructuring (transactions with forbearance measures)

The Bank's refinancing and restructuring policy is defined in accordance with the specifications laid down in Bank of Spain regulation.

In particular:

Unless there is evidence to the contrary, transactions shall be deemed to be a restructuring or refinancing (transactions with forbearance measures) in the following circumstances:

a. When some or all of the payments of the modified transaction have been past due for more than 30 days (without being classified as non-performing) at least once in the three months preceding its modification, or would be past due for more than 30 days without said modification.

b. When, simultaneously or nearly simultaneously with the granting of additional financing by the entity, the borrower has made payments of interest on another transaction with the entity, on which some or all of the payments have been due for more than 30 days at least once in the three months prior to the refinancing.

c. When the entity approves the use of implicit restructuring or refinancing clauses (forbearance measures) in relation to borrowers with outstanding amounts 30 days past-due or more than 30 days past due if such clauses have not been exercised.

On the date of the refinancing or restructuring transaction, the refinancing, refinanced or restructured transactions (transactions with forbearance measures) classified as performing exposures shall be analysed as at that date but prior to the forbearance process, to determine whether they should be reclassified from performing to non-performing. This analysis shall take into account the general criteria determining the classification of transactions as non-performing and the specific criteria set out below.

Unless there is evidence to the contrary, refinancing, refinanced or restructured transactions (transactions with forbearance measures) meeting any of the following criteria shall be reclassified as non-performing:

a. They are supported by inadequate payment plans. The situations in which it will be considered that there is no adequate payment plan shall include, inter alia, the repeated failure to comply with the payment plan, its modification to avoid breaches, or its resting on expectations that are not supported by macroeconomic forecasts.

b. They include contract terms that extend the time for the regular repayment instalments on the transaction, such as grace periods of more than two years for the repayment of the principal.

c. They include amounts derecognised as being irrecoverable that exceed the allowances and provisions resulting from applying the percentages established in Bank of Spain Circular 4/2016.

The refinancing or restructuring of a transaction (transactions with forbearance measures) that was previously classified as non-performing shall not lead to its reclassification in the category of performing exposures under special monitoring.

For this reclassification to performing exposures under special monitoring to take place, all the general criteria for classifying transactions in this category and the specific criteria set out below have to be met:

a. That a year has elapsed since the refinancing or restructuring (forbearance measures).

b. That the borrower has paid the accrued principal and interest instalments, reducing the renegotiated principal, since the later of the date of entry into the restructuring or refinancing transaction (forbearance measures) or the date of reclassification of the transaction as non-performing. Consequently, the transaction may not present past-due amounts. Additionally, the borrower must have settled, by means of regular payments, an amount equivalent to all the amounts, including principal and interest, past-due on the date of the restructuring or refinancing transaction (forbearance measures), or which were derecognised as a result of it.

c. The borrower does not have any other transactions with amounts more than 90 days past-due at the date the refinancing, refinanced or restructured transaction (transactions with forbearance measures) was reclassified to the category of performing exposures under special monitoring.

Refinancing, refinanced or restructured transactions (transactions with forbearance measures) that are classified within the category of performing exposures – owing to their classification as non-performing not being applicable on the date of refinancing or restructuring or owing to their reclassification from the category of non-performing exposures – shall continue to be identified as under special monitoring during a probation period until all the following requirements are met:

a. That, following an exhaustive review of the borrower's financial situation, it has been concluded that it is not foreseeable that the borrower will encounter financial difficulties and that, it is therefore highly probable that it will be able to comply with its obligations to the entity in the due time and form. This analysis of the recoverability in time and form of the exposure shall be based on objective evidence, such as:

i) The existence of a payments plan attuned to the borrower's recurring cash flow.

ii) The addition of new effective guarantors or new effective collateral.

b. That a minimum of two years has elapsed since the later of the date of entry into the restructuring or refinancing transaction (with forbearance measures) or the date of reclassification from the category of non-performing exposures.

c. That the borrower has paid the accrued instalments of principal and interest since the later of the date of entry into the restructuring or refinancing transaction (with forbearance measures) or the date of reclassification from the category of non-performing. Additionally:

i) the borrower must have settled, by means of regular payments, an amount equivalent to all the amounts, including principal and interest, past-due on the date of the restructuring or refinancing transaction (with forbearance measures), or which were derecognised as a result of it;

ii) or other objective criteria that demonstrate the borrower's ability to pay must have been verified, if this is more appropriate based on the characteristics of the transactions.

Therefore, the existence of contract terms that extend the repayment period, such as grace periods for the principal, will mean that the transaction remains identified as a performing exposure under special monitoring until the aforementioned criteria have been met.

d. That the borrower does not have any other transactions with amounts more than 30 days past-due at the end of the probation period.

Accordingly, if all the foregoing requirements are met, the transactions shall cease to be identified in the financial statements as refinancing, refinanced or restructured transactions (transactions with forbearance measures).

During the probation period described, a new refinancing or restructuring of refinancing, refinanced or restructured transactions (transactions with forbearance measures) or the existence of amounts more than 30 days past-due shall entail the reclassification of these transactions on probation to the category of non-performing for reasons other than arrears, provided they were classified as non-performing before the commencement of the probation period.

Refinancing and restructuring decisions must be made at an appropriate level of the organisation, other than the level which originally granted the transaction, or, if on the same level, reviewed by a higher decision-making level or body. Endeavours will thus be made to ensure that refinancing and restructuring transactions (with forbearance measures) are approved by a committee independent to the one that initially granted the transaction, and approval of such transactions by branch committees will not be permitted.

For exposures in excess of €1 million, the refinanced risks and the estimate of their impairment are reviewed through an individual analysis that considers all available information on the customer, the type of transactions and the guarantees. The findings of the analysis are documented on a case-by-case basis in a monitoring file that is constantly updated and which provides an estimate of impairment that is taken into consideration when recognising the required provision. Exposures for an amount of less than €1 million are also reviewed on an individual basis through automatic procedures that include the application of scoring systems, the inputs for which are the reiteration of certain risk indicators and the guarantees associated with transactions of customers experiencing difficulties. This process produces the valuation adjustment applicable to each borrower and to each contract, on the basis of which the required provision is determined and recognised.

The provisions applied to forborne transactions of customers representing an exposure of less than €1 million classified as non-performing for reasons other than arrears cannot be less than 20% of the gross carrying amount.

The risk policies approved by the Bank require that whenever credit operations are renegotiated as a result of the borrower having financial difficulties, the interest rates applied to the transaction must either be maintained or increased. Otherwise, the Bank recognises the pertinent provision for the loss arising from reduction in the interest rate with respect to the original rate.

Lastly, with regard to the treatment of interest payable that has not been recognised as it pertains to transactions that were non-performing at the date of refinancing (forbearance measures), the interest accrued before and after the refinancing remains unrecognised.

The decisions taken are regularly reviewed to determine compliance with the forbearance policies.

At 31 December 2016, the outstanding balances of refinancing and restructuring operations (transactions with forbearance measures) amount to €3,035,809 thousand (€4,611,361 thousand at 31 December 2015), of which €1,887,013 thousand relate to impaired assets (€2,457,986 at 31 December 2015), for which impairment losses had been recognised.

Total specific allowances and provisions for impairment of those assets amount to €894,200 thousand and €1,261,610 thousand at 31 December 2016 and 2015, respectively.

Quantitative information by counterparty and purpose of the transaction at 31 December 2016 and 2015, in thousands of Euros, is as follows:

At 31 December 2016

	Total						
	Unsecured loans		Secured loans				Accumulated impairment o accumulated losses in fair value due to credit risk
					Maximum amount of secured loans that can be considered		
	Number of operations	Gross amount	Number of operations	Gross amount	Secured by real estate collateral	Secured by other collateral	
Credit institutions	-	-	-	-	-	-	-
General government	9	70,552	67	18	861	-	(529)
Other financial companies and individual entrepreneurs (financial business)	19	31,504	15	1,587	1,136	2	(11,683)
Non-financial companies and individual entrepreneurs (non-financial business)	4,542	756,775	3,270	833,071	355,884	83,592	(592,279)
Of which: financing of real estate construction and property development (including land)	*181*	5,349	308	74,517	41,832	7,012	(26,396)
Rest of households	4,342	61,977	12,593	1,280,325	896,828	12,959	(289,709)
Total	**8,912**	**920,808**	**15,945**	**2,115,001**	**1,254,709**	**96,553**	**894,200**
ADDITIONAL INFORMATION Information classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-

At 31 December 2016

	Of which: non-performing						
	Unsecured loans		Secured loans				Accumulated impairment o accumulated losses in fair value due to credit risk
	Number of operations	Gross amount	Number of operations	Gross amount	Maximum amount of secured loans that can be considered: Secured by real estate collateral	Maximum amount of secured loans that can be considered: Secured by other collateral	
Credit institutions	-	-	-	-	-	-	-
General government	4	691	26	7	861	-	(528)
Other financial companies and individual entrepreneurs	12	31,377	9	943	560	3	(11,655)
Non-financial companies and individual entrepreneurs	2,013	469,966	2,010	616,266	209,362	41,750	(574,774)
Of which: financing of real estate construction and property development (including land)	150	4,230	212	41,369	12,316	4,421	(25,720)
Rest of households	2,189	36,243	6,903	731,520	429,825	5,157	(278,847)
Total	**4,218**	**538,277**	**8,948**	**1,348,736**	**640,608**	**46,910**	**(865,804)**
ADDITIONAL INFORMATION Information classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-

At 31 December 2015

	Total						
	Unsecured loans		Secured loans				Accumulated impairment or accumulated losses in fair value due to credit risk
					Maximum amount of secured loans that can be considered		
	Number of operations	Gross amount	Number of operations	Gross amount	Secured by real estate collateral	Secured by other collateral	
Credit institutions	-	-	-	-	-	-	-
General government	54	102,836	158	166	1,835	-	(661)
Other financial companies and individual entrepreneurs (financial business)	56	36,943	9	1,063	468	5	(9,808)
Non-financial companies and individual entrepreneurs (non-financial business)	4,727	1,091,943	4,208	1,259,724	332,948	433,006	(859,394)
Of which: financing of real estate construction and property development (including land)	*455*	*34,094*	*971*	327,741	*83,697*	*117,643*	*(126,398)*
Rest of households	9,618	122,358	18,852	1,996,328	1,359,699	63,817	(391,747)
Total	14,455	1,354,080	23,227	3,257,281	1,694,950	496,828	(1,261,610)
ADDITIONAL INFORMATION Information classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-

At 31 December 2015

	Of which: non-performing						
	Unsecured loans		Secured loans				Accumulated impairment o accumulated losses in fair value due to credit risk
					Maximum amount of secured loans that can be considered		
	Number of operations	Gross amount	Number of operations	Gross amount	Secured by real estate collateral	Secured by other collateral	
Credit institutions	-	-	-	-	-	-	-
General government	7	1,228	64	61	1,835	-	(661)
Other financial companies and individual entrepreneurs	16	36,843	3	770	195	5	(9,787)
Non-financial companies and individual entrepreneurs	2,319	568,449	2,642	793,570	204,508	195,958	(769,382)
Of which: financing of real estate construction and property development (including land)	265	9,994	615	226,233	52,024	64,181	(114,056)
Rest of households	5,058	75,467	8,804	981,598	598,229	26,311	(376,296)
Total	**7,400**	**681,987**	**11,513**	**1,775,999**	**804,767**	**222,274**	**(1,156,126)**
ADDITIONAL INFORMATION Information classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-

i) Distribution of exposure from loans and advances to customers by activity

Details of the distribution of loans and advances to customers by activity, broken down by tranche based on the carrying amount of the financing as a percentage of the latest appraisal value or the value of available collateral *(loan to value (LTV))* at 31 December 2016 and 2015, are as follows:

At 31 December 2016

	Thousands of euros							
				Secured loans Carrying amount over the latest available appraisal (*LTV*)				
	(*) Total	Of which: secured by real estate	Of which: secured by other collateral	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80% but less than or equal to 100%	Over 100%
General government	3,010,895	1,133	5,527	346	549	130	3	5,632
Other financial companies and individual entrepreneurs	450,550	25,336	131,315	4,088	6,234	13,587	6,822	125,920
Non-financial companies and individual entrepreneurs	10,296,506	3,476,526	1,078,648	658,619	724,474	1,288,200	1,200,645	683,236
Real estate construction and property development	*726,577*	*677,458*	*7,771*	*73,093*	*55,658*	*500,555*	*26,434*	*29,489*
Civil works construction	*249,889*	*233,072*	*1,443*	*3*	*5*	*1,435*	*231,955*	*1,117*
Rest of purposes:	*9,320,040*	*2,565,996*	*1,069,434*	*585,523*	*668,811*	*786,210*	*942,256*	*652,630*
Large corporations	*4,510,561*	*613,797*	*617,277*	*71,035*	*168,765*	*170,357*	*631,197*	*189,720*
SMEs and individual entrepreneurs	*4,809,479*	*1,952,199*	*452,157*	*514,488*	*500,046*	*615,853*	*311,059*	*462,910*
Rest of households and non-profit institutions serving households	14,183,245	13,030,909	25,915	2,776,440	3,958,503	4,422,236	1,171,048	728,597
Housing	*12,179,053*	*11,832,149*	*7,793*	*2,456,245*	*3,653,657*	*4,138,253*	*1,026,517*	*565,270*
Consumer	*541,625*	*211,866*	*5,749*	*88,688*	*62,830*	*42,271*	*12,253*	*11,573*
Other purposes	*1,462,567*	*986,894*	*12,373*	*231,507*	*242,016*	*241,712*	*132,278*	*151,754*
SUBTOTAL	27,941,196	16,533,904	1,241,405	3,439,493	4,689,760	5,724,153	2,378,518	1,543,385
Less: Impairment losses on assets not assigned to specific operations	-							
TOTAL	27,941,196							
Memorandum Item Refinancing, refinanced and restructured operations	2,181,609	1,433,275	69,243	200,805	245,970	409,306	276,529	369,908

(*) Net of valuation adjustments

At 31 December 2015

	Thousands of euros							
				Secured loans Carrying amount over the latest available appraisal (*LTV*)				
	(*) Total	Of which: secured by real estate	Of which: secured by other collateral	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60% but less than or equal to 80%	Over 80% but less than or equal to 100%	Over 100%
General government	2,129,195	7,777	13,623	1,562	3,456	1,535	209	14,638
Other financial companies and individual entrepreneurs	333,445	17,165	15,430	11,579	-	2,485	612	17,919
Non-financial companies and individual entrepreneurs	9,944,035	2,823,156	1,351,882	457,055	1,386,437	869,919	1,142,066	319,561
Real estate construction and property development	*724,986*	*426,935*	*14,168*	*47,718*	*71,907*	*178,853*	*107,213*	*35,412*
Civil works construction	*314,785*	*109,818*	*31,564*	*2,433*	*109,623*	*18,245*	*8,427*	*2,654*
Rest of purposes:	*8,904,264*	*2,286,403*	*1,306,150*	*406,904*	*1,204,907*	*672,821*	*1,026,426*	*281,495*
Large corporations	*3,988,630*	*598,610*	*762,486*	*160,185*	*621,251*	*154,720*	*385,120*	*39,820*
SMEs and individual entrepreneurs	*4,915,634*	*1,687,793*	*543,664*	*246,719*	*583,656*	*518,101*	*641,306*	*241,675*
Rest of households and non-profit institutions serving households	14,645,810	13,425,267	32,995	2,737,790	3,982,613	4,788,110	1,148,888	800,861
Housing	*12,489,582*	*12,115,326*	*8,522*	*2,405,387*	*3,660,548*	*4,455,488*	*982,844*	*619,581*
Consumer	*584,327*	*240,380*	*8,987*	*96,700*	*65,400*	*52,129*	*16,289*	*18,849*
Other purposes	*1,571,901*	*1,069,561*	*15,486*	*235,703*	*256,665*	*280,493*	*149,755*	*162,431*
SUBTOTAL	27,052,485	16,273,365	1,413,930	3,207,986	5,372,506	5,662,049	2,291,775	1,152,979
Less: Impairment losses on assets not assigned to specific operations	(255,160)							
TOTAL	26,797,325							
Memorandum Item Refinancing, refinanced and restructured operations	3,349,751	2,266,587	273,124	341,682	453,633	720,592	708,609	315,195

(*) Net of valuation adjustments

10. Derivatives

10.1. Derivatives – hedge accounting (assets and liabilities)

10.1.1. Fair value hedges

At 31 December 2016 and 2015, the breakdown, by type of product, of the fair value and notional amount of the derivatives designated as hedging instruments in fair value hedge transactions is as follows:

At 31 December 2016

	Thousands of euros			
	Debit balances		Credit balances	
	Fair Value	Notional	Fair Value	Notional
Interest rate swaps (IRS)	57,624	1,621,587	97,615	2,613,217
	57,624	**1,621,587**	**97,615**	**2,613,217**

At 31 December 2015

	Thousands of euros			
	Debit balances		Credit balances	
	Fair Value	Notional	Fair Value	Notional
Interest rate swaps (IRS)	19,787	325,000	45,548	1,359,027
	19,787	**325,000**	**45,548**	**1,359,027**

The notional amount of the contracts arranged does not represent the actual risk assumed by the Bank with regard to these instruments.

At 31 December 2016 interest rate swaps include swaps with a notional amount of €1,832,700 thousand which have been designated as fair value hedges for the interest rate risk on fixed-income securities, which were issued at fixed rates and had been classified as available-for-sale financial assets at the date of issue (€1,629,600 thousand at 31 December 2015).

At 31 December 2016 this item also includes swaps with a notional amount of €2,000,000 thousand which have been designated as fair value hedges for the interest rate risk on fixed-rate loans to and deposits from credit institutions (no hedges of this type had been arranged at 31 December 2015).

10.1.2. Cash flow hedges

At 31 December 2016 and 2015, the breakdown, by type of product, of the fair value and the notional amount of the derivatives designated as hedging instruments in cash flow hedge transactions, is as follows:

At 31 December 2016

	Thousands of euros			
	Debit balances		Credit balances	
	Fair Value	Notional	Fair Value	Notional
Other interest rate transactions:				
Interest rate swaps (IRS)	295	165,750	51,863	1,622,250
	295	**165,750**	**51,863**	**1,622,250**

At 31 December 2015

	Thousands of euros			
	Debit balances		Credit balances	
	Fair Value	Notional	Fair Value	Notional
Other interest rate transactions:				
Interest rate swaps (IRS)	23	16,000	31,748	836,605
	23	**16,000**	**31,748**	**836,605**

The notional amount of the contracts arranged does not represent the actual risk assumed by the Bank with regard to these instruments.

Cash flow hedging is used to reduce the variability of cash flows (attributable to the interest rate) from hedged items (marketable and non-marketable securities, fixed-income securities and mortgage portfolio). These hedges convert the floating interest rate on assets/liabilities to a fixed rate of interest, using interest rate derivatives.

At 31 December 2016 interest rate swaps include swaps with a notional amount of €1,406,000 thousand which have been designated as cash flow hedges for the interest rate risk on the mortgage portfolio (no hedges of this type had been arranged at 31 December 2015).

Details of the periods, as from 31 December 2016 and 2015, in which the amounts recognised in equity under "Accumulated other comprehensive income – Cash flow hedges" are expected to revert to future profit or loss, are as follows:

At 31 December 2016

	Thousands of euros			
	Less than 1 Year	Between 1 and 3 Years	Between 3 and 5 Years	More than 5 Years
Credit balances (gains)	8,907	14,913	15,258	68,906
Debit balances (losses) (*)	(6,146)	(10,057)	(13,067)	(123,352)
Total	**2,761**	**4,856**	**2,191**	**(54,446)**

(*) Taking into account the corresponding tax effect.

At 31 December 2015

	Thousands of euros			
	Less than 1 Year	Between 1 and 3 Years	Between 3 and 5 Years	More than 5 Years
Credit balances (gains)	7	9	1	-
Debit balances (losses) (*)	(10,669)	(10,200)	(1,005)	-
Total	**(10,662)**	**(10,191)**	**(1,004)**	**-**

(*) Taking into account the corresponding tax effect.

Details of the estimated amount of future payments and receipts hedged through cash flow hedges, broken down by expected term of their collection or payment as from 31 December 2016 and 2015, are as follows:

At 31 December 2016

	Thousands of euros			
	Less than 1 Year	Between 1 and 3 Years	Between 3 and 5 Years	More than 5 Years
Receipts	8,904	14,869	15,250	75,715
Payments	6,142	10,029	13,069	133,324
Total	**2,762**	**4,840**	**2,181**	**(57,609)**

At 31 December 2015

	Thousands of euros			
	Less than 1 Year	Between 1 and 3 Years	Between 3 and 5 Years	More than 5 Years
Receipts	178	226	107	-
Payments	15,657	14,511	1,503	-
Total	**(15,479)**	**(14,285)**	**(1,396)**	-

At 31 December 2016 and 2015, all of the contracts arranged by the Bank had been entered into with different creditworthy counterparties.

10.1.3. Hedge effectiveness

The Bank considers a hedge to be highly effective when:

i) At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. Such an expectation can be verified by comparing past changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk with past changes in the fair value or cash flows of the hedged item, or by demonstrating a high statistical correlation between the fair value or cash flows of the hedged item and those of the hedging instrument.

ii) The actual results of the hedge are within a range of 80–125 per cent.

At 31 December 2016 and 2015, the breakdown, by type of hedged item, of the fair value and notional amount of derivatives designated as hedging instruments, is as follows:

At 31 December 2016

	Thousands of euros			
	Debit balances		Credit balances	
	Fair Value	Notional	Fair Value	Notional
Credit institutions	22,366	1,000,000	14,750	1,189,735
Loans and advances to customers	3,342	257,437	36,018	1,335,931
Deposits from customers	-	-	16,049	350,000
Debt securities issued	6,424	25,000	417	15,000
Debt securities	25,787	504,900	82,244	1,344,800
	57,919	**1,787,337**	**149,478**	**4,235,466**

At 31 December 2015

	Thousands of euros			
	Debit balances		Credit balances	
	Fair Value	Notional	Fair Value	Notional
Credit institutions	-	-	401	183,705
Loans and advances to customers	-	-	14	4,427
Deposits from customers	-	-	25,120	350,000
Debt securities issued	-	-	6,126	275,900
Debt securities	19,810	341,000	45,635	1,381,600
	19,810	**341,000**	**77,296**	**2,195,632**

Details, by type of hedged item, of the gains and losses on derivatives designated as hedging instruments during 2016 and 2015 are as follows:

Financial Year 2016

	Thousands of euros				
	Net interest income		Results Financial Transactions		
	Correction of income (Notes 28 and 29)	Correction of costs (Notes 28 and 29)	Residual Value of hedged item	Residual Value of hedging instruments	Total Ineffective ness (Note 33)
Credit institutions	595	(2,017)	(4,245)	4,363	118
Loans and advances to customers	1,063	-	(1,694)	1,790	96
Deposits from customers	-	(6,200)	241	(939)	(698)
Debt securities issued	-	(5,684)	(6,008)	6,213	205
Debt securities	(22,606)	-	20,672	(22,719)	(2,047)
	(20,948)	**(13,901)**	**8,966**	**(11,292)**	**(2,326)**

Financial Year 2015

	Thousands of euros				
	Net interest income		Results Financial Transactions		
	Correction of income (Note 28)	Correction of costs (Note 29)	Residual Value of hedged item	Residual Value of hedging instruments	Total Ineffective ness (Note 33)
Credit institutions	154	(402)	397	(401)	(4)
Loans and advances to customers	(113)	-	12	14	26
Deposits from customers	-	3,191	18,601	(18,586)	15
Debt securities issued	-	(6,692)	2,630	(2,614)	16
Debt securities	(8,929)	-	16,833	(17,473)	(640)
	(8,888)	**(3,903)**	**38,473**	**(39,060)**	**(587)**

10.2. Derivatives held for trading (assets and liabilities)

At 31 December 2016 and 2015, the breakdown, by inherent risk, of the fair value of the derivatives held for trading arranged by the Bank, is as follows:

	Thousands of euros			
	2016		2015	
	Debit Balance	Credit Balance	Debit Balance	Credit balance
Interest rate risk	130,532	110,299	142,412	126,945
Currency risk	8,181	2,231	3,871	275
Market risk	2,333	4,093	3,422	4,879
	141,046	**116,623**	**149,705**	**132,099**

At 31 December 2016 and 2015, all of the contracts arranged by the Bank had been entered into with different creditworthy counterparties.

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

At 31 December 2016, the Bank has recognised under this caption in the balance sheet €158,342 thousand (€170,509 at 31 December 2015) relating to fixed assets from foreclosures that the Bank intends to dispose of and that are not part of the Bank's operating activities, and to property investments that the Bank expect to realise through sales.

The breakdown of the balance of this item on the balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Assets foreclosed or received in payment of debt	50,998	52,228
Investment property and tangible assets for own use	107,344	118,281
Equity interests	-	-
	158,342	**170,509**

a) *Assets foreclosed or received in payment of debt*

The breakdown of the balance of this item on the balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Residential assets	46,052	49,193
Industrial assets	11,616	10,724
Other assets	4,641	1,062
Gross total	**62,309**	**60,979**
Less - Impairment losses	(11,311)	(8,751)
Net total	**50,998**	**52,228**

In 2016, the Bank proceeded to several sales of assets recognised under this caption in the balance sheet, achieving net gains of €3,475 thousand (€17,003 thousand net gains in 2015), which were recognised under "Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" in the accompanying statements of profit or loss for 2016 and 2015. This caption also includes allowances for impairment on non-current assets held for sale amounting to €1,750 thousand (€1,418 thousand in 2015). At 31 December 2016 and 2015 there were no outstanding amounts relating to transactions carried out during these years.

During 2016 the Bank transferred foreclosed assets amounting to €4,507 thousand to "Tangible assets – Investment property".

In 2016 and 2015, changes in the allowance for impairment on these assets are as follows:

	Thousands of Euros
Balance at 1 January 2015	**6,276**
Allowance charged to profit or loss for the period	1,418
Other changes	1,057
2015 Closing balance	**8,751**
Allowance charged to profit or loss for the period	1,750
Other changes	810
Balance at 31 December 2016	**11,311**

The fair value of non-current assets and disposal groups classified as held for sale has been determined as follows:

- In the case of assets for which there is an up-to-date appraisal carried out by an appraisal company authorised by the Bank of Spain, the fair value was taken to be the value obtained from the appraisal conducted in accordance with Ministerial Order ECO/805/2003. The main appraisal companies involved in the valuation of these assets were Savills, TINSA, S.A., Eurovaloraciones, S.A., IBERTASA, S.A. and Tasaciones Hipotecarias, S.A.

- In the case of assets that are not significant and for which there is no up-to-date appraisal carried out by an appraisal company authorised by the Bank of Spain, the fair value presented was obtained from estimates made by the Bank, taking into consideration data from the mortgage market with regard to the price trends of tangible assets with similar characteristics to those of the Bank.

At 31 December 2016 and 2015, the breakdown of the carrying amount and fair value of this type of assets is as follows:

At 31 December 2016

	Thousands of euros		Age of the Appraisal		
	Gross carrying amount	Appraisal Value	Under 12 months	Between 12 and 24 Months	Over 24 months
Foreclosed assets	62,309	119,641	57,443	9,276	52,922

At 31 December 2015

	Thousands of euros		Age of the Appraisal		
	Gross carrying amount	Appraisal Value	Under 12 months	Between 12 and 24 Months	Over 24 months
Foreclosed assets	60,979	133,733	32,450	65,116	36,167

Below is the order of permanence of the main assets from foreclosures or recoveries recognised in the balance sheet at 31 December 2016 and 2015:

	Thousands of euros	
	31.12.16	31.12.15
Up to one year	6,136	24,869
Between 1 and 3 Years	32,627	17,107
Between 3 and 5 Years	7,995	12,143
More than 5 years	15,551	6,860
Total	**62,309**	**60,979**

At 31 December 2016 and 2015, the breakdown of the origin of assets acquired and foreclosed, based on the purpose of the loan or credit initially extended, is as follows:

At 31 December 2016

	Thousands of euros	
	Gross carrying amount (*)	Accumulated impairment
Real estate assets from financing of real estate construction and property development		
Buildings and other constructions completed	14,333	2,400
Housing	*14,214*	*2,373*
Other	*119*	*27*
Buildings and other constructions in progress	3,458	-
Housing	*3,454*	-
Other	*4*	-
Land	11,617	383
Consolidated urban land	*8,502*	*173*
Rest of land	*3,115*	*210*
Real estate assets from mortgage loans to households for house purchase	*27,587*	*7,848*
Rest of assets foreclosed or received in payment of debt	5,314	680
Equity instruments foreclosed or received in payment of debt	-	-
Equity instruments of entities holding assets foreclosed or received in payment of debt	-	-
Financing to companies holding assets foreclosed or received in payment of debt	-	-
	62,309	**11,311**

(*) Amount before deducting any accumulated impairment.

At 31 December 2015

	Thousands of euros	
	Gross carrying amount (*)	Accumulated impairment
Real estate assets from financing of real estate construction and property development		
Buildings and other constructions completed	15,930	2,341
Housing	*15,524*	2,227
Other	*406*	*114*
Buildings and other constructions in progress	*3,386*	*7*
Housing	*3,292*	
Other	*94*	*7*
Land	*11,452*	*452*
Consolidated urban land	*8,775*	*446*
Rest of land	*2,677*	*6*
Real estate assets from mortgage loans to households for house purchase	*25,845*	*5,511*
Rest of assets foreclosed or received in payment of debt	4,366	440
Equity instruments foreclosed or received in payment of debt	-	-
Equity instruments of entities holding assets foreclosed or received in payment of debt	-	-
Financing to companies holding assets foreclosed or received in payment of debt	-	-
	60,979	8,751

(*) *Amount before deducting any accumulated impairment.*

b) Investment property and tangible assets for own use

Changes in the balance of this caption in the balance sheet in 2016 and 2015 were as follows:

	Thousands of Euros
Balance at 1 January 2015	**135,819**
Additions	176
Transfers from tangible assets for own use (Note 13)	14,787
Transfers from investment property (Note 13)	1,325
Transfers to tangible assets for own use (Note 13)	(14,737)
Transfers to investment property (Note 13)	(16,922)
Retirements	(1,798)
Impairment	(369)
Balance at 31 December 2015	**118,281**
Additions	27
Transfers from tangible assets for own use (Note 13)	13,543
Transfers from investment property (Note 13)	2,637
Transfers to tangible assets for own use (Note 13)	(451)
Transfers to investment property (Note 13)	(23,913)
Retirements	(2,780)
Impairment	-
Balance at 31 December 2016	**107,344**

This heading in the balance sheet basically includes buildings that are not part of the Bank's operating activities and whose value will be recovered through their disposal.

Transfers from tangible assets for own use recorded in 2016 relate to buildings that became available for disposal in 2016, particularly commercial premises located at no. 11 Calle Hórreo (Santiago de Compostela) and a building located at No. 9 Calle Montero Ríos (Santiago de Compostela), whose combined net carrying amount was €3,270 thousand.

Transfers from tangible assets use recorded in 2015 relate to branches and other buildings classified as tangible assets for own use that have been either vacated or ceased to be used in 2016, particularly commercial premises located at nos. 36-38 Calle Policarpo Sanz (Vigo) and at no. 42 Paseo General Martínez Campos (Madrid), whose combined net carrying amount was €7,975 thousand.

Transfers to investment property recorded in 2016 relate to buildings that were available for lease in 2016, particularly commercial premises located at no. 42 Paseo General Martínez Campos (Madrid) and at no. 8 Calle Paseo (Ourense), whose combined net carrying amount was €3,301 thousand.

Transfers to investment property recorded in 2015 relate to buildings that were available for lease in 2015, particularly commercial premises located at no. 21 Calle Policarpo Sanz (Vigo) and at nos. 3-41 Pocomaco (A Coruña), whose combined net carrying amount was €4,080 thousand.

Transfers to tangible assets recorded in 2015 relate to buildings that were unused at the end of 2014 and that started to be used in 2015, particularly a building located at no. 3 Calle Riego de Agua (A Coruña) and commercial premises located at no. 3 Libertad (Guipúzcoa), whose combined net carrying amount was €6,861 thousand.

Insurance policy

The Bank has taken out insurance policies to cover the potential risk of damage to its investment property. The Board of Directors of the Bank believes that the insurance coverage arranged is adequate, considering the locations of its investment properties.

c) *Equity interests*

Changes, excluding impairment losses, in the balance of this caption in the balance sheet in 2015 were as follows:

	Thousands of Euros
2014 Closing balance	**32,964**
Other disposals	(32,141)
Retirement on liquidation	(823)
2015 Closing balance	**-**

In 2015, sales relate to disposal of the interests in Sociedad Eólica Galenova, S.L., resulting in gains amounting to €2,707 thousand.

In 2015, the balance under "Retirement on liquidation" relates to the liquidation of the company FC 40 SPN INTL, which produced losses for the Bank amounting to €520 thousand (see Note 38).

In 2016 no changes were recorded in this item of the accompanying balance sheet.

Below is a summary of changes registered in the balance of "Impairment losses" on these assets in 2015:

	Thousands of euros		
	Group entities	Associate Entities	Total
Balance at 31 December 2014	**17,144**	-	**17,144**
Use of provisions upon liquidation	(303)	-	(303)
Transfer of allowances from investments in subsidiaries, joint ventures and associates (Note 12)	11,057	-	11,057
Use of provisions upon sale	(27,898)	-	(27,898)
Balance at 31 December 2015	**-**	-	**-**

In 2016 no changes were recorded under "Impairment losses" on these assets.

12. Investments in subsidiaries, joint ventures and associates

a) Breakdown

This item includes equity instruments issued by subsidiaries, joint ventures and associates held by the Bank and that have not been recognised under "Non-current assets and disposal group classified as held for sale".

The breakdown of the Bank's most relevant investments in subsidiaries, joint ventures and associates at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Subsidiaries:		
ABANCA Corporación División Inmobiliaria, S.L.U.	3,607,608	3,607,608
ABANCA Corporación Industrial y Empresarial, S.L.U.	2,162,490	2,162,490
SU Inmobiliaria Unipessoal, S.A.	11,446	11,446
Arboretum, S.A.	13,620	13,620
Complejo Residencial Marina Atlántica, S.L.	18,359	18,359
Imantia Capital, SGIIC.S.A.	-	6,265
Copronova, S.L.	420	-
Construziona Galicia, S.L.	18	-
Instituto de Educación Superior Internacional Empresarial, S.L. (IESIDE)	5	-
Other	-	6
Valuation adjustments – Impairment losses	(3,428,850)	(3,342,325)
	2,385,116	2,477,469
Associates:		
Cidade Tecnolóxica de Vigo, S.A.	1,870	1,870
Cidade Universitaria, S.A.	3,301	3,301
Obenque, S.A.	4,200	4,200
Parque Tecnolóxico de Galicia	898	898
Raminova Inversiones, S.L.	33,972	33,972
Imantia Capital, SGIIC. S.A.	1,566	-
Valuation adjustments – Impairment losses	(41,139)	(40,824)
	4,668	3,417

All the instruments included in this caption of the balance sheet at 31 December 2016 and 2015 are expressed in Euro and none of the above mentioned companies is listed on secondary markets.

Appendix I shows the main investees, including interest percentages and other relevant information on these investees.

b) Acquisitions, disposals and transfers

Changes, excluding impairment losses, in the balance of this caption in the balance sheet in 2016 and 2015 were as follows:

	Thousands of Euros
Balance at 1 January 2015	**5,899,140**
Purchases and increases	311,878
Sales and reductions	(348,127)
Transfer from equity instruments (Note 8)	1,144
2015 Closing balance	**5,864,035**
Purchases and increases	443
Sales and reductions	(4,705)
Transfer from equity instruments (Note 8)	-
2016 Closing balance	**5,859,773**

Financial Year 2016

Additions in 2016 basically related to the purchase of 3% in Copronova, S.L., while derecognitions mainly relate to the disposal of 61.65% in Imantia Capital, SGIIC, S.A.

In 2016 ABANCA Corporación Industrial y Empresarial, S.L.U. paid an interim dividend for 2016 amounting to €70,000 thousand (see Note 30).

Financial Year 2015

Additions in 2015 mainly related to the capital increase of ABANCA Corporación División Inmobiliaria, S.L. consisting in the issue of 375,000 new shares with a nominal value of €100 each and a total share premium of €112,500 thousand, that was entirely subscribed and paid up by the Bank.

Additionally, on 31 July 2015, the Bank acquired the remaining 50% in the capital of the company ABANCA II Vida y Pensiones de Seguros y Reaseguros, S.A.U. (formerly Caixanova Vida y Pensiones de Seguros y Reaseguros, S.A.) for a consideration of €84,700 thousand. The entire interest in the capital of ABANCA II Vida y Pensiones de Seguros y Reaseguros, S.A.U. has been sold to ABANCA I Vida y Pensiones de Seguros y Reaseguros, S.A. and generated proceeds for €71,900 thousand (see Note 38).

Derecognitions in 2015 mainly related to the transfer of the interest in the capital of Sogevinus SGPS, S.A. to ABANCA Corporación Industrial y Empresarial, S.L. as a non-monetary contribution to the capital increase of the latter, consisting in the issue of 320,253 new shares with a nominal value of €45 each and a total share premium of €57,645, thousand.

On 4 August 2015, ABANCA Corporación Industrial y Empresarial, S.L. approved a capital reduction by cutting the nominal value of its 18,569,669 shares from €60 to €45 and transferring to voluntary reserves an amount of €278,545 thousand. Subsequently, the company approved the application of the above mentioned reserves and a total of €1,087,090 thousand from the share premium, to offset losses amounting to €1,063,248 thousand as at that date. After this transaction, the company retained a share premium of €157,270 thousand, and approved the reimbursement thereof to the Bank. In 2015 ABANCA Corporación Industrial y Empresarial, S.L.U. paid an interim dividend for 2015 amounting to €50,000 thousand (see Note 30).

Below is a summary of movements registered in the balance of "Impairment losses" on these assets in 2016 and 2015:

	Thousands of euros		
	Associate entities	Associate Entities	Total
Balance at 1 January 2015	**3,515,310**	**68,198**	**3,583,508**
Allowance charged to profit or loss for the period	7,057	-	7,057
Transfers	18,359	(18,359)	-
Transfer of allowances from loans and receivables (Note 9-d)	75,388	-	75,388
Transfer of allowances from equity instruments (Note 8)	835	-	835
Transfer of allowances to non-current assets and disposal groups classified as held for sale (Note 11-c)	(11,057)	-	(11,057)
Other changes	70,857	-	70,857
Applications on disposal or derecognition	(20,679)	(9,015)	(29,694)
Reversals	(313,745)	-	(313,745)
Balance at 31 December 2015	**3,342,325**	**40,824**	**3,383,149**
Allowance charged to profit or loss for the period	1,247	-	1,247
Transfers	(315)	315	-
Transfer of allowances from loans and receivables (Note 9-d)	48,704	-	48,704
Transfer of allowances from equity instruments (Note 8)	-	-	-
Transfer of allowances to non-current assets and disposal groups classified as held for sale (Note 11-c)	-	-	-
Other changes	42,522	-	42,522
Applications on disposal or derecognition	(633)	-	(633)
Reversals	(5,000)	-	(5,000)
Balance at 31 December 2016	**3,428,850**	**41,139**	**3,469,989**

At 31 December 2016 the balance under "Reversals" entirely relates to the reversal of impairment of the investment in ABANCA Corporación Industrial y Empresarial, S.L. At 31 December 2015, the balance under "Reversals" included €250.000 relating to the reversal of the impairment of the investment in ABANCA Corporación División Inmobiliaria, S.L.

At 31 December 2016, the balance under "Other changes" amounting to €42,399 thousand relating to the valuation adjustment recognised on the investment in ABANCA Corporación, División Inmobiliaria, S.L.U. associated to the foreclosure of real estate assets recovered through the enforcement of mortgage collaterals for financial assets recognised as "Derecognised impaired financial assets" (see Note 9-f) that were transferred by the Bank to that company by way of assignment of rights awarded in foreclosure auctions (€70,857 thousand at 31 December 2015).

13. Tangible assets

13.1. Tangible assets for own use

The breakdown by nature of the items under this caption in the balance sheet in 2016 and 2015 is as follows:

Financial Year 2016

	Thousands of euros			
	Cost	Accumulated Depreciation	Impairment	Net Balance
Computer hardware and installations	84,195	(38,534)	(6,061)	39,600
Furniture, motor vehicles and other installations	503,114	(336,156)	(9,579)	157,379
Land and buildings	720,474	(84,621)	(16,076)	619,777
Balance at 31 December 2016	**1,307,783**	**(459,311)**	**(31,716)**	**816,756**

Financial Year 2015

	Thousands of euros			
	Cost	Accumulated Depreciation	Impairment	Net Balance
Computer hardware and installations	66,594	(31,904)	(6,163)	28,527
Furniture, motor vehicles and other installations	501,664	(326,966)	(5,114)	169,584
Land and buildings	736,652	(81,458)	(16,076)	639,118
Balance at 31 December 2015	**1,304,910**	**(440,328)**	**(27,353)**	**837,229**

At 31 December 2016 and 2015 the net balance in the foregoing table includes €7,561 thousand and €7,689 thousand, respectively, relating to items of property, plant and equipment owned by Bank's branches located abroad.

At 31 December 2016 "Land and buildings" in the foregoing table includes a revaluation of €194,044 thousand (€197,554 at 31 December 2015) arising from the recognition at fair value of items revalued due to various mergers in the past and/or to the revaluation of assets performed on 1 January 2004 in accordance with the change in accounting regulations.

At 31 December 2016, the cost and accumulated depreciation of fully depreciated tangible assets for own use amounted to €222,590 thousand (€212,168 thousand at 31 December 2015).

Changes

Changes in the balance of this caption in the balance sheet in 2016 and 2015 were as follows:

Financial Year 2016

	Thousands of euros
	For own use
Cost:	
Balance at 1 January 2016	1,304,910
Additions	33,192
Retirements	(6,957)
Transfers to non-current assets and disposal groups classified as held for sale (Note 11.b)	(15,281)
Transfers to investment property	(8,631)
Transfers from non-current assets and disposal groups classified as held for sale (Note 11.b)	550
Transfers from investment property	-
Balance at 31 December 2016	**1,307,783**
Accumulated depreciation:	
Balance at 1 January 2016	(440,328)
Allowances	(27,074)
Retirements	5,390
Transfers to non-current assets and disposal groups classified as held for sale (Note 11.b)	1,738
Transfers to investment property	1,062
Transfers from investment property	-
Transfers from non-current assets and disposal groups classified as held for sale (Note 11.b)	(99)
Balance at 31 December 2016	**(459,311)**
Impairment:	
Balance at 1 January 2016	(27,353)
Allowances	(4,363)
Balance at 31 December 2016	**(31,716)**
Net tangible assets	
Balance at 31 December 2016	**816,756**

Financial Year 2015

	Thousands of euros
	For own use
Cost:	
Balance at 1 January 2015	1,257,323
Additions	374,578
Retirements	(244,202)
Transfers to non-current assets and disposal groups classified as held for sale (Note 11.b)	(16,731)
Transfers to investment property	(85,980)
Transfers from non-current assets and disposal groups classified as held for sale (Note 11.b)	18,705
Transfers from investment property	1,217
Balance at 31 December 2015	**1,304,910**
Accumulated depreciation:	
Balance at 1 January 2015	(651,808)
Allowances	(28,490)
Retirements	241,770
Transfers to non-current assets and disposal groups classified as held for sale (Note 11.b)	1,944
Transfers to investment property	500
Transfers from investment property	(276)
Transfers from non-current assets and disposal groups classified as held for sale (Note 11.b)	(3,968)
Balance at 31 December 2015	**(440,328)**
Impairment:	
Balance at 1 January 2015	(16,018)
Allowances	(11,335)
Balance at 31 December 2015	**(27,353)**
Net tangible assets	
Balance at 31 December 2015	**837,229**

Additions

The principal additions in 2016 essentially comprise the acquisition of automation equipment and computer programs for the Pocomaco offices, and furniture and other fixtures for the building in Paseo de Recoletos 4, in Madrid.

The main additions in 2015 essentially comprised the acquisition, for €332,831 thousand, of office premises where the Bank carries out its activity.

Retirements

Retirements in 2015 mostly reflected cashpoints and other IT equipment that were fully depreciated.

Transfers

In 2016 and 2015 transfers mainly relate to offices and other buildings for own use that were leased to third parties during the reporting periods.

Impairment

In 2016, in view of branch closures and other buildings being out of use, the Bank recognised impairment losses for €4,363 thousand (€11,335 thousand in 2015).

Insurance policies

The Bank has taken out insurance policies to cover the potential risk of damage to its tangible assets.

13.2. Investment property

Changes in the balance of this caption in the balance sheet in 2016 and 2015 were as follows:

Financial Year 2016

	Thousands of Euros
Cost:	
Balance at 1 January 2016	209,011
Additions	378
Retirements	(1,299)
Transfers to non-current assets and disposal groups classified as held for sale (Note 11.b)	(2,735)
Transfers to tangible assets for own use	-
Transfers from tangible assets for own use	8,631
Transfers from non-current assets and disposal groups classified as held for sale (Note 11.b)	32,148
Balance at 31 December 2016	**246,134**
Accumulated depreciation:	
Balance at 1 January 2016	(19,379)
Allowances	(1,663)
Retirements	623
Transfers to non-current assets and disposal groups classified as held for sale (Note 11.b)	98
Transfers to tangible assets for own use	-
Transfers from tangible assets for own use	(1,062)
Transfers from non-current assets and disposal groups classified as held for sale (Note 11.b)	(3,728)
Balance at 31 December 2016	**(25,111)**
Impairment:	
Balance at 1 January 2016	(43,546)
Allowances	-
Balance at 31 December 2016	**(43,546)**
Net:	
Balance at 31 December 2016	**177,477**

Financial Year 2015

	Thousands of Euros
Cost:	
Balance at 1 January 2015	107,216

Additions	694
Retirements	(2,258)
Transfers to non-current assets and disposal groups classified as held for sale (Note 11.b)	(1,483)
Transfers to tangible assets for own use	(1,217)
Transfers from tangible assets for own use	85,980
Transfers from non-current assets and disposal groups classified as held for sale (Note 11.b)	20,079
Balance at 31 December 2015	**209,011**
Accumulated depreciation:	
Balance at 1 January 2015	(14,914)
Allowances	(1,254)
Retirements	12
Transfers to non-current assets and disposal groups classified as held for sale (Note 11.b)	158
Transfers to tangible assets for own use	276
Transfers from tangible assets for own use	(500)
Transfers from non-current assets and disposal groups classified as held for sale (Note 11.b)	(3,157)
Balance at 31 December 2015	**(19,379)**
Impairment:	
Balance at 1 January 2015	(42,302)
Allowances	(1,244)
Balance at 31 December 2015	**(43,546)**
Net:	
Balance at 31 September 2015	**146,086**

Rental income from investment property owned by the Bank totalled €5,681 thousand in 2016 (€4,423 thousand in 2015). Operating expenses arising therefrom in 2016 amounted to €1,418 thousand (€1,281 thousand in 2015) (see Notes 34 and 37).

At 31 December 2016 investment property with a cost of €2,186 thousand was fully depreciated. No investment property was fully depreciated at 31 December 2015.

Transfers

In 2016 transfers from tangible assets for own use mainly relate to a building located at nos. 135-137 Calle San Andrés (A Coruña) and to commercial premises located at nos. 75-77 Calle Poble Nou (Barcelona), amounting to €2,346 thousand. During 2016 the Bank transferred foreclosed assets amounting to €4,507 thousand to tangible assets – investment property.

In 2015, Transfers from tangible assets for own use relate to offices that were leased to third parties during that reporting year.

14. Intangible Assets

The breakdown of the balance of this item on the balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
With finite useful life:		
Administrative concessions	2,845	2,845
Computer software	76,857	70,227

Transfer rights	3	3
Gross total	**79,705**	**73,075**
Accumulated amortisation	(69,336)	(67,172)
Net total	**10,369**	**5,903**

Changes (gross amount) in the balance of this caption in the balance sheet in 2016 and 2015 were as follows:

	Thousands of Euros
2015 Opening balance	**82,248**
Additions	4,608
Retirements	(13,781)
2015 Closing balance	**73,075**
Additions	6,582
Retirements	(15)
Transfers from tangible assets for own use	63
Balance at 31 December 2016	**79,705**

Changes in accumulated amortisation of intangible assets with finite useful lives in 2016 and 2015 were as follows:

	Thousands of Euros
2015 Opening balance	**66,411**
Allowances charged to profit or loss for the period	762
Other changes	(1)
2015 Closing balance	**67,172**
Allowances charged to profit or loss for the period	2,161
Other changes	3
Balance at 31 December 2016	**69,336**

At 31 December 2016 and 2015 intangible assets with a cost value of €64,958 thousand were fully amortised or impaired.

15. Other assets

The breakdown of the balance of this item on the balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Prepaid expenses	4,570	15,473
Pension plans net assets	12,552	11,975
Transactions in transit	53,080	35,264
Inventories	1,409	697
Foreclosures in progress	1,385	1,541
Payments yet to be passed onto third parties	5,581	10,380
Deposit Guarantee Fund	43,624	50,168
Other	1,799	2,849
Insurance contracts linked to pensions (see Note 21)	150,926	153,836
	274,926	**282,183**

At 31 December 2016, “Deposit Guarantee Fund” includes €43,624 thousand (€50,168 thousand at 31 December 2015) relating to the present value of the extraordinary contribution approved by the Management Committee of the Deposit Guarantee Fund for Credit Institutions at its session held on 30 July 2012.

At 31 December 2016 and 2015, transactions in transit basically include transactions between branches and centres of the Bank that have not arrived at the destination branch, and charges generated by different entities through the Savings Bank Exchange Service (“SICA”) system, mainly corresponding to customers and which are applied in the days following their reception.

16. Deposits from Central Banks and Credit Institutions

The breakdown of this caption in the balance sheet at 31 December 2016 and 2015, by classification, counterparty, nature and currency, is as follows:

	Thousands of euros	
	2016	2015
Classification:		
Financial liabilities at amortised cost	3,963,144	6,967,606
	3,963,144	6,967,606
Counterparty:		
Central banks	1,700,000	4,717,921
Credit institutions	2,263,144	2,249,685
	3,963,144	6,967,606
Nature:		
Time deposits	1,261,002	240,992
Assets acquired or sold under resale or repurchase agreements (Note 7)	942,987	1,954,494
Other accounts	1,759,155	4,772,120
	3,963,144	6,967,606
Currency:		
Euro	3,955,594	6,965,864
Foreign currency	7,550	1,742
	3,963,144	6,967,606
Valuation adjustments:		
Accrued interest	10,388	7,836
Micro-hedges (+/-)	4,245	-
	3,977,777	6,975,442

At 31 December 2016 and 2015, the limit allocated by the European Central Bank for financing from the credit system against pledged debt securities and loans totalled €3,085,962 thousand and €5,559,435 thousand, respectively, of which €1,700,000 thousand had been drawn down at 31 December 2016 (€4,717,921 thousand at 31 December 2015). At 31 December 2016 the average annual interest rate on these drawdowns is 0.64% (0.68% at 31 December 2015).

Note 43 includes a breakdown of the maturity periods of these liabilities at the 2016 and 2015 reporting dates, as well as the average annual interest rates.

17. Deposits from customers

The breakdown of this caption in the balance sheet at 31 December 2016 and 2015, by classification, geographical area, nature and currency, is as follows:

	Thousands of euros	
	2016	2015
Classification:		
Financial liabilities at amortised cost	34,950,450	33,717,638
	34,950,450	**33,717,638**
Geographical area:		
Spain	32,602,606	31,443,589
European Union (excluding Spain)	673,545	595,592
United States of America and Puerto Rico	115,133	110,080
Other OECD countries	846,457	854,410
Latin America	677,700	686,239
Rest of the world	35,009	27,728
	34,950,450	**33,717,638**
Nature:		
Demand:		
Current accounts	6,903,572	5,546,910
Savings accounts	10,969,747	9,561,083
Term deposits		
Fixed-term deposits	15,975,031	18,389,202
Hybrid financial liabilities	114,729	48,905
Assets acquired or sold under resale or repurchase agreements (Note 7)	987,371	171,538
	34,950,450	**33,717,638**
Currency:		
Euro	33,732,829	32,474,354
Foreign currency	1,217,621	1,243,284
	34,950,450	**33,717,638**
Valuation adjustments:		
Accrued interest	68,213	96,411
Transaction costs	(8,834)	(9,527)
Micro-hedges	65,179	75,470
	35,075,008	**33,879,992**

Note 43 includes a breakdown of the maturity periods of these liabilities at the 2016 and 2015 reporting dates, as well as the average annual interest rates.

At 31 December 2016 and 2015, "Fixed-term deposits" in the above table respectively included 18 and 23 issues of non-negotiable covered bonds carried out by the Bank, the characteristics of which are shown below:

Mortgage covered bonds

Information required pursuant to Law 2/1981, of 25 March, governing the mortgage market, and to Royal Decree 716/2009, of 24 April, implementing certain aspects of this law.

These covered bonds are securities whose capital and interest are specifically secured by a mortgage, without the need to be registered, without prejudice to the overall liability of the Bank and, where appropriate, through the replacement assets and through the economic flows generated by the derivative financial instruments linked to each issue.

Covered bonds include the holder's rights to receivables vis-à-vis the Bank, secured as described in the preceding paragraph, and payment by the issuer is enforceable after maturity. Holders of these securities are pre-emptive creditors in accordance with article 1,923, point 3 of the Civil Code and have preference over all other creditors with regard to all mortgage loans held by the issuer in the case of mortgage bonds and in relation to the replacement assets and cash flows generated by the derivative financial instruments associated with the issues.

In the event of insolvency proceedings, covered bond holders have the special privileges established in article 90, paragraph 1, point 1 of Law 22/2003, of 9 July, (Insolvency Law). Nonetheless, in accordance with article 84, paragraph 2, point 7 of the Insolvency Law, during insolvency proceedings, payments of capital and interest on covered bonds issued and pending redemption at the date the request for insolvency proceedings is filed would be honoured up to the amount of income received by the insolvent party from the mortgage loans, as well as the replacement assets that back the bonds, if applicable, and the cash flows generated by the instruments associated with the issues.

In the event that income received by the insolvent party were insufficient to honour the payments mentioned in the preceding paragraph due to a timing difference, the administrators should settle these payments by selling off the replacement assets associated with the issue and, if this were not sufficient, carry out financing transactions to honour the obligatory payment of the bond holders, for which the financer assumes liability.

In the event that implementation of the procedures described in article 155, point 3 of the Insolvency Law were required, holders of covered bonds of the issuer would be paid on a pro rata basis, irrespective of the dates of issue of their securities.

The Board of Directors states that the Bank has specific policies and procedures in place encompassing all mortgage market issue activities carried out and guaranteeing strict compliance with applicable mortgage market legislation.

Information relating to mortgage covered bond issues

Details of covered bond issues and their main characteristics at 31 December 2016 and 2015 are as follows:

At 31 December 2016

Issue date	Maturity date	Nominal amount (Thousands of euros)	Interest type[4]	Settlement
2 December 2003	2 December 2018	199,839	4.76%	Annual
4 December 2003(*)	2 December 2018	135,484	4.76%	Annual
16 November 2004	16 November 2019	26,828	4.26%	Annual
29 March 2005(*)	29 March 2020	58,333	4.00%	Annual
31 March 2005	31 March 2020	58,333	4.00%	Annual
28 June 2005	28 June 2025	410,256	3.75%	Annual
21 November 2005	21 May 2025	200,000	3.88%	Annual
14 December 2005	14 December 2022	129,630	3.75%	Annual
20 February 2006	20 February 2018	100,000	0.01434%[1]	Quarterly
22 March 2006(*)	22 March 2021	200,000	4.01%	Annual
24 March 2006	24 March 2021	100,000	4.00%	Annual
12 June 2006	12 June 2018	250,000	4.25%	Annual
23 October 2006	24 May 2017	200,000	0.01571%[2]	Quarterly
23 October 2006	23 October 2023	100,000	4.25%	Annual
19 March 2007	19 March 2017	50,000	4.00%	Annual
28 March 2007(*)	8 April 2031	200,000	4.25%	Annual
25 May 2007(*)	25 May 2027	200,000	4.76%	Annual
25 May 2007	24 May 2019	50,000	0.018602%[3]	Quarterly
		2,668,703		

(*) *The Bank's interest rate risk management policy for these issues is based on holding positions in fair value hedging derivatives, basically in the form of interest rate swaps, which are recognised as "Derivatives - hedge accounting" under assets and liabilities in the consolidated balance sheet (see note 10).*

(1) *Interest rate pegged to 3-month Euribor plus a spread of 0.1434%.*

(2) *Interest rate pegged to 3-month Euribor plus a spread of 0.01571%.*

(3) *Interest rate pegged to 3-month Euribor plus a spread of 0.018602%.*

(4) *Unless specified otherwise in the above notes, issues have a fixed rate of interest.*

At 31 December 2015

Issue date	Maturity date	Nominal amount (Thousands of euros)	Interest type[(4)]	Settlement
2 December 2003	2 December 2018	199,839	4.76%	Annual
4 December 2003 (*)	2 December 2018	135,484	4.76%	Annual
1 March 2004	1 March 2016	60,000	4.39%	Annual
16 November 2004	16 November 2019	26,828	4.26%	Annual
29 March 2005 (*)	29 March 2020	58,333	4.00%	Annual
31 March 2005	31 March 2020	58,333	4.00%	Annual
28 June 2005	28 June 2025	410,256	3.75%	Annual
21 November 2005	21 May 2025	200,000	3.88%	Annual
14 December 2005	14 March 2016	185,185	3.50%	Annual
14 December 2005	14 December 2022	129,630	3.75%	Annual
20 February 2006	20 February 2018	100,000	0.11934%[(1)]	Quarterly
14 March 2006	14 March 2016	100,000	3.50%	Annual
22 March 2006 (*)	22 March 2021	200,000	4.01%	Annual
24 March 2006	24 March 2021	100,000	4.00%	Annual
12 June 2006	12 June 2018	250,000	4.25%	Annual
23 October 2006	24 May 2017	200,000	0.08571%[(2)]	Quarterly
23 October 2006	23 October 2023	100,000	4.25%	Annual
18 December 2006	18 December 2016	300,000	4.01%	Annual
19 March 2007	19 March 2017	50,000	4.00%	Annual
28 March 2007 (*)	8 April 2031	200,000	4.25%	Annual
25 May 2007 (*)	25 May 2027	200,000	4.76%	Annual
25 May 2007	24 May 2019	50,000	0.093602%[(3)]	Quarterly
10 June 2009	13 June 2016	200,000	4.76%	Annual
		3,513,888		

(*) *The Bank's interest rate risk management policy for these issues is based on holding positions in fair value hedging derivatives, basically in the form of interest rate swaps, which are recognised as "Derivatives - hedge accounting" under assets and liabilities in the consolidated balance sheet (see note 10).*

(1) *Interest rate pegged to 3-month Euribor plus a spread of 0.1193%.*

(2) *Interest rate pegged to 3-month Euribor plus a spread of 0.08571%.*

(3) *Interest rate pegged to 3-month Euribor plus a spread of 0.0936%.*

(4) *Unless specified otherwise in the above notes, issues have a fixed rate of interest.*

These covered bonds have been issued pursuant to the provisions of Law 2/1981, of 25 March, governing the mortgage market, and the regulations implementing it.

Movement in the nominal value of these liabilities during the year ended 31 December 2016 reflects the redemption on maturity of five issues of covered bonds for a combined amount of €845,185 thousand (redemption on maturity of six covered bond issues for a combined amount of €958,078 thousand in the year ended 31 December 2015).

The Group had no matured covered bond issues at 31 December 2016 and 2015.

Qualitative information on mortgage market activities

At 31 December 2016 and 2015, the breakdown of mortgage loans by eligibility for mortgage market purposes is as follows:

	Thousands of euros	
	Nominal amount	
	2016	2015
Total loans (*)	19,988,745	19,888,764
Collateralised mortgage bonds issued		
Of which: loans recognised as assets	-	-
Mortgage transfer certificates issued		
Of which: loans recognised as assets	*1,701,424*	*973,525*
Mortgage loans pledged as collateral to secure financing received		
Mortgage loans that back the issue of mortgage bonds and covered bonds (**)	18,287,321	18,915,239
i) Ineligible loans (***)	8,542,501	8,046,555
- *Loans meeting the eligibility requirements, except the limit requirement of Article 5.1 of Royal Decree 716/2009*	*3,304,666*	*3,219,648*
- *Other ineligible loans*	*5,237,835*	*4,826,907*
ii) Eligible loans (****)	9,744,820	10,868,684
- *Loans backing mortgage covered bond issues* (*****)	-	-
- *Loans qualifying for backing mortgage covered bond issues*	*9,744,820*	*10,868,684*
- *Non-qualifying amounts*	*51,675*	*23,010*
- *Qualifying amounts*	*9,693,145*	*10,845,674*

(*) *Including those acquired through collateralised mortgage bonds and mortgage transfer certificates, even if they have been derecognised from the balance sheet.*

(**) *Total loans less collateralised mortgage bonds issued, mortgage transfer certificates issued, and mortgage loans pledged as collateral to secure financing received.*

(***) *Not meeting the requirements of article 3 of Royal Decree 716/2009.*

(****) *Pursuant to article 3 of Royal Decree 716/2009, without deducting the computation limits set forth in article 12 of Royal Decree 716/2009.*

(*****) *Pursuant to the criteria set forth in article 12 of Royal Decree 716/2009.*

The nominal value of outstanding mortgage loans and eligible loans in accordance with Royal Decree 716/2009, without considering the computation limits set forth in article 12 of foregoing Royal Decree 716/2009, is shown below. The values are broken down by source, currency, payment status, average residual maturity, interest rate, borrower, type of collateral, and the ratio of transaction amount to appraisal value of the respective properties mortgaged:

At 31 December 2016

	Thousands of euros	
	Mortgage loans that back the issue of mortgage bonds and covered bonds	Of which: eligible loans (*)
TOTAL	**18,287,321**	**9,744,820**
TRANSACTION ORIGINATION		
Originated by the Entity	16,517,122	9,316,841
Subrogated from other entities	199,385	93,204
Other	1,570,814	334,775
CURRENCY		
Euro	17,834,070	9,744,820
Other currencies	453,251	-
PAYMENT STATUS		
Performing	16,608,487	9,387,143
Other status	1,678,834	357,677
AVERAGE RESIDUAL MATURITY		
Up to 10 years	4,313,681	1,516,834
10 to 20 years	5,540,412	3,473,496
20 to 30 years	7,032,185	4,208,218
More than 30 years	1,401,043	546,272
INTEREST RATES		
Fixed interest rate	424,928	160,919
Floating interest rate	17,625,085	9,575,285
Mixed interest rate	237,308	8,616
BORROWER		
Legal entities and individual entrepreneurs	4,545,543	1,173,325
Of which: Real estate construction and property development	*638,898*	*131,828*
Rest of households	13,741,778	8,571,495
TYPE OF COLLATERAL		
Completed assets/buildings		
Housing	14,538,132	8,955,181
Of which: social housing	*151,934*	*110,370*
Offices and commercial premises	1,276,716	502,112
Other buildings and constructions	732,076	162,814
Assets/buildings under construction		
Housing	111,391	32,802
Of which: social housing	*13,117*	100
Offices and commercial premises	36,681	25,795
Other buildings and constructions	6,940	3,915
Land		
Consolidated urban land	209,267	33,656
Rest of land	1,376,118	28,545

(*) Pursuant to article 3 of Royal Decree 716/2009, without deducting the computation limits set forth in article 12 of Royal Decree 716/2009.

At 31 December 2015

	Thousands of euros	
	Mortgage loans that back the issue of mortgage bonds and covered bonds	Of which: eligible loans (*)
TOTAL	**18,915,239**	**10,868,684**
TRANSACTION ORIGINATION		
Originated by the Entity	17,380,350	10,318,535
Subrogated from other entities	216,294	155,045
Other	1,318,595	395,104
CURRENCY		
Euro	18,590,867	10,321,796
Other currencies	324,372	546,888
PAYMENT STATUS		
Performing	16,774,803	10,321,796
Other status	2,140,436	546,888
AVERAGE RESIDUAL MATURITY		
Up to 10 years	4,101,356	1,598,570
10 to 20 years	5,549,559	3,573,690
20 to 30 years	7,122,033	4,716,985
More than 30 years	2,142,291	979,439
INTEREST RATES		
Fixed interest rate	258,322	61,405
Floating interest rate	18,385,725	10,787,001
Mixed interest rate	271,192	20,278
BORROWER		
Legal entities and individual entrepreneurs	4,358,482	1,059,816
Of which: Real estate construction and property development	*622,746*	*61,708*
Rest of households	14,556,757	9,808,868
TYPE OF COLLATERAL		
Completed assets/buildings		
Housing	15,517,009	9,863,126
Of which: social housing	*126,021*	*96,581*
Offices and commercial premises	915,296	393,875
Other buildings and constructions	1,053,466	387,268
Assets/buildings under construction		
Housing	411,023	103,226
Of which: social housing	*81*	-
Offices and commercial premises	67,871	26,572
Other buildings and constructions	604,627	41,686
Land		
Consolidated urban land	224,024	36,557
Rest of land	121,923	16,374

(*) Pursuant to article 3 of Royal Decree 716/2009, without deducting the computation limits set forth in article 12 of Royal Decree 716/2009.

The distribution of nominal values according to the principal draw compared to the latest available appraisal (*loan to value* (*LTV*)) in accordance with Royal Decree 716/2009, without considering the computation limits set forth in article 12 of foregoing Royal Decree 716/2009, is shown below.

	at 31 December 2016					
	Principal drawn compared to the latest available appraisal (*LTV*) (Thousands of euros)					
	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60%	Over 60% but less than or equal to 80%	Over 80%	TOTAL
TYPE OF COLLATERAL						
Loans eligible for issues of mortgage bonds and covered bonds (*)	2,863,891	3,636,031	43,637	3,201,261	-	9,744,820
Housing collateral	*2,414,315*	*3,372,407*	-	*3,201,261*	-	*8,987,983*
Other real estate collateral	*449,576*	*263,624*	*43,637*	-	-	*756,837*

(*) Pursuant to article 3 of Royal Decree 716/2009, without deducting the computation limits set forth in article 12 of Royal Decree 716/2009.

	31 December 2015					
	Principal drawn compared to the latest available appraisal (*LTV*) (Thousands of euros)					
	Less than or equal to 40%	Over 40% but less than or equal to 60%	Over 60%	Over 60% but less than or equal to 80%	Over 80%	TOTAL
TYPE OF COLLATERAL						
Loans eligible for issues of mortgage bonds and covered bonds (*)	3,018,088	4,000,497	3,850,099	-	-	10,868,684
Housing collateral	*2,477,760*	*3,643,768*	*3,815,036*	-	-	*9,966,352*
Other real estate collateral	*540,328*	*356,729*	*35,063*	-	-	*932,120*

(*) Pursuant to article 3 of Royal Decree 716/2009, without deducting the computation limits set forth in article 12 of Royal Decree 716/2009.

Details of available balances of the mortgage loans that back the issue of mortgage bonds and covered bonds are as follows:

	Thousands of euros	
	Undrawn principals (*)	
	31.12.16	31.12.15
Mortgage loans that back the issue of mortgage bonds and covered bonds		
Total	197,702	123,081
Potentially eligible (**)	80,292	48,392
Ineligible	117,410	74,689

(*) Amounts committed less amounts drawn down, including those amounts that are only transferred to developers when homes are sold.

(**) Pursuant to article 3 of Royal Decree 716/2009.

At 31 December 2016 and 2015 and during the years then ended the Bank had no replacement assets tied to the issue of mortgage bonds and covered bonds.

Mortgage securities

At 31 December 2016 and 2015, the breakdown of outstanding mortgage securities issued by the Bank is as follows:

At 31 December 2016

	Nominal amount (Thousands of euros)	Average residual maturity (*)
MORTGAGE SECURITIES		
Mortgage bonds issued (**)	-	
Of which: recognised as liabilities	-	
Mortgage covered bonds issued (**)	3,818,705	
Of which: recognised as liabilities	*3,818,705*	
Debt securities Issued to the public	-	
Residual maturity, up to one year	-	
Residual maturity, more than one year and up to two years	-	
Residual maturity, more than two years and up to three years	-	
Residual maturity, more than three years and up to five years	-	
Residual maturity, more than five years and up to ten years	-	
Residual maturity, over ten years	-	
Debt securities Other issues	1,150,000	
Residual maturity, up to one year	100,000	
Residual maturity, more than one year and up to two years	-	
Residual maturity, more than two years and up to three years	1,000,000	
Residual maturity, more than three years and up to five years	50,000	
Residual maturity, more than five years and up to ten years	-	
Residual maturity, over ten years	-	
Deposits	2,668,705	
Residual maturity, up to one year	250,000	
Residual maturity, more than one year and up to two years	685,323	
Residual maturity, more than two years and up to three years	76,829	
Residual maturity, more than three years and up to five years	416,667	
Residual maturity, more than five years and up to ten years	839,886	
Residual maturity, over ten years	400,000	
Collateralised mortgage bonds issued	-	-
Issued to the public	-	-
Other issues	-	-
Mortgage transfer certificates issued (***)	1,701,424	275
Issued to the public	-	-
Other issues	1,701,424	275

(*) Average residual maturity weighted by amount, expressed in rounded months (rounded to the later month where equidistant from the two).

(**) Mortgage bonds and covered bonds include all instruments issued by the entity pending redemption, even if they have not been recognised under liabilities (because they have not been placed with third parties or have been repurchased).

(***) The amount of collateralised mortgage bonds and mortgage transfer certificates issued that solely comprise mortgage loans still recognised under assets on the balance sheet.

At 31 December 2015

	Nominal amount (Thousands of euros)	Average residual maturity (*)
MORTGAGE SECURITIES		
Mortgage bonds issued (**)	-	
Of which: recognised as liabilities	-	
Mortgage covered bonds issued (**)	4,663,890	
Of which: recognised as liabilities	*4,663,890*	
Debt securities Issued to the public	-	
Residual maturity, up to one year	-	
Residual maturity, more than one year and up to two years	-	
Residual maturity, more than two years and up to three years	-	
Residual maturity, more than three years and up to five years	-	
Residual maturity, more than five years and up to ten years	-	
Residual maturity, over ten years	-	
Debt securities Other issues	1,150,000	
Residual maturity, up to one year	-	
Residual maturity, more than one year and up to two years	1,000,000	
Residual maturity, more than two years and up to three years	-	
Residual maturity, more than three years and up to five years	150,000	
Residual maturity, more than five years and up to ten years	-	
Residual maturity, over ten years	-	
Deposits	3,513,890	
Residual maturity, up to one year	845,185	
Residual maturity, more than one year and up to two years	250,000	
Residual maturity, more than two years and up to three years	685,323	
Residual maturity, more than three years and up to five years	193,496	
Residual maturity, more than five years and up to ten years	1,139,886	
Residual maturity, over ten years	400,000	
Collateralised mortgage bonds issued	-	-
Issued to the public	-	-
Other issues	-	-
Mortgage transfer certificates issued (***)	963,680	268
Issued to the public	-	-
Other issues	963,680	268

(*) Average residual maturity weighted by amount, expressed in rounded months (rounded to the later month where equidistant from the two).

(**) Mortgage bonds and covered bonds include all instruments issued by the entity pending redemption, even if they have not been recognised under liabilities (because they have not been placed with third parties or have been repurchased).

(***) The amount of collateralised mortgage bonds and mortgage transfer certificates issued that solely comprise mortgage loans still recognised under assets on the balance sheet.

18. Debt securities issued

a) Breakdown

At 31 December 2016 and 2015 the breakdown, by classification and nature, of the balance of this line item in the balance sheet is as follows:

	Thousands of euros	
	2016	2015
Classification:		
Financial liabilities at amortised cost	768,832	1,014,183
	768,832	**1,014,183**
Nature:		
Mortgage covered bonds	1,150,000	1,150,000
Exchangeable compound financial instruments	45,000	380,832
Own securities	(435,023)	(525,964)
Subordinated liabilities (Note 19)	8,855	9,315
	768,832	**1,014,183**
Currency:		
Euros	768,832	1,014,183
	768,832	**1,014,183**
Valuation adjustments:		
Accrued interest	28,811	29,473
Micro-hedges	14,740	21,388
Transaction costs	(137)	(406)
	812,246	**1,064,638**

The currency of these marketable securities was the Euro for all issues.

Note 43 includes a breakdown of the maturity periods of these liabilities at the 2016 and 2015 reporting dates, as well as the average annual interest rates.

b) Mortgage securities

The covered bond issues carried out by the Bank were agreed by its Board of Directors by virtue of the authorisations granted by the Bank's shareholders at their General Meeting and pursuant to the limits approved by the aforementioned governing body.

The main characteristics of outstanding issues at 31 December 2016 and 2015 are as follows:

At 31 December 2016

Designation	Number of Securities	Thousands of Euros Nominal	Date of Issue	Date of Maturity	Type of Interest rate	Settlement of Interest
Caixa Galicia 2007 – 1st Issue	10,000	1,000,000	23/01/2007	23/01/2019	4.38%	Annual
Caixa Galicia 2009 – 2nd issue	2,000	100,000	13/10/2009	13/10/2017	0.897%(1)	Biannual
Mortgage covered bonds, May 2010	1,000	50,000	06/05/2010	31/07/2020	4.90%	Annual
		1,150,000				

(1) 6-month Euribor plus a spread of 1.10%.

At 31 December 2015

Designation	Number of Securities	Thousands of Euros Nominal	Date of Issue	Date of Maturity	Type of Interest rate	Settlement of Interest
Caixa Galicia 2007 – 1st Issue	10,000	1,000,000	23/01/2007	23/01/2019	4.38%	Annual
Caixa Galicia 2009 – 2nd issue	2,000	100,000	13/10/2009	13/10/2017	1.279%(1)	Biannual
Mortgage covered bonds, May 2010	1,000	50,000	06/05/2010	31/07/2020	4.90%	Annual
		1,150,000				

(1) 6-month Euribor plus a spread of 1.10%.

These covered bonds have been issued pursuant to the provisions of Law 2/1981, of 25 March, governing the mortgage market, and the regulations implementing it.

Changes in the nominal value recorded in the balance of this item during 2016 and 2015 were as follows:

	Thousands of Euros
2015 Opening balance	**1,650,000**
Redemptions	(500,000)
2015 Closing balance	**1,150,000**
Redemptions	-
Balance at 31 December 2016	**1,150,000**

No covered bonds matured in 2016 (€500,000 thousand in 2015).

Of the closing balance for 2016 shown above, €430,023 thousand relate to issues that form part of the Bank's treasury share portfolio (€430,003 thousand at the end of 2015).

No covered bonds were issued in 2016 or 2015.

c) Other non-convertible securities

"Other non-convertible securities" relates to issues of uncovered bonds carried out by the Bank.

The main characteristics of outstanding issues at 31 December 2016 and 2015 are as follows:

At 31 December 2016

Designation	Number of Securities	Thousands of euros Nominal	Thousands of euros Redemption Value	Date of Issue	Date of Maturity	Type of Interest rate	Settlement of Interest
IV Issue B - June 06	500	25,000	25,000	30/06/2006	30/06/2018	1.67%[1]	Annual
VI Issue A - February 07	400	20,000	20,000	21/02/2007	21/02/2017	0%[2]	Quarterly
		45,000	**45,000**				

[1] *Annual fixed interest rate. In addition, the issue accrues a variable coupon pegged to the CPI, payable on the maturity date of the issue.*
[2] *3-month Euribor plus a spread of 0.27%.*

At 31 December 2015

Designation	Number of Securities	Thousands of euros Nominal	Thousands of euros Redemption Value	Date of Issue	Date of Maturity	Type of Interest rate	Settlement of Interest
III Issue - May 06	6,000	300,000	300,000	31/05/2006	31/05/2016	0.11%[1]	Quarterly
IV Issue A - June 06	500	25,000	25,000	30/06/2006	30/06/2016	1.505%[2]	Annual
IV Issue B - June 06	500	25,000	25,000	30/06/2006	30/06/2018	1.675%[2]	Annual
VI Issue A - February 07	400	20,000	20,000	21/02/2007	21/02/2017	0.18%[3]	Quarterly
Uncovered bonds 2013 issue	677	10,832	10,832	04/07/2013	12/09/2016	2%	Annual
		380,832	**380,832**				

[1] *3-month Euribor plus a spread of 0.22%.*
[2] *Annual fixed interest rate. In addition, the issue accrues a variable coupon pegged to the CPI, payable on the maturity date of the issue.*
[3] *3-month Euribor plus a spread of 0.27%.*

Changes in the redemption value of this item during 2016 and 2015 were as follows:

	Thousands of Euros
2014 Closing balance	**842,932**
Redemptions	(462,100)
2015 Closing balance	**380,832**
Redemptions	(335,832)
2016 Closing balance	**45,000**

The bond issues carried out by the Bank were approved by its Board of Directors by virtue of the authorisations granted by the Bank's shareholders at their General Meeting and pursuant to the limits approved by the aforementioned governing body.

Bonds totalling €335,832 thousand matured in 2016 (€462,100 thousand in 2015).

No bonds were redeemed early in 2016 or 2015.

Of the closing balance for 2016 shown above, €5,000 thousand relate to issues that form part of the Bank’s treasury share portfolio (€95,961 thousand at the end of 2015).

No non-convertible securities were issued in 2016 or 2015.

19. Subordinated liabilities

a) Breakdown

At 31 December 2016 and 2015 the breakdown, by classification and nature, of the balance of this line item in the balance sheet is as follows:

	Thousands of euros	
	2016	2015
Classification:		
Financial liabilities at amortised cost	8,855	9,315
	8,855	**9,315**
Nature:		
Subordinated liabilities	8,855	9,315
	8,855	**9,315**
Valuation adjustments		
Accrued interest	5	6
	8,860	**9,321**

Note 43 includes a breakdown of the maturity periods of these liabilities at the 2016 and 2015 reporting dates, as well as the average annual interest rates.

The balance at 31 December 2016 relates entirely to the issue of uncovered subordinated bonds designated as "Obligaciones subordinadas Banco Etcheverría" for a nominal amount of €10,500 thousand (€10,500 thousand at 31 December 2015).

The main characteristics of these issues are as follows:

- First issue for a nominal amount of €6,000 thousand, divided into 6,000 bonds of €1,000 thousand par value each, all with the same rights. The issue was arranged through a deed executed on 8 November 2005, and the subscription period was closed on 20 December 2005 with the offering fully subscribed at that date. These bonds are listed and their maturity period is 10 years from the date the issue was closed, although the Bank is entitled to redeem the issue after five years from the issue closing date, subject to authorisation from the bank of Spain. The Bank can opt to redeem this issue, subject to authorisation from the Bank of Spain. This issue is eligible as Tier 2 capital, in accordance with prevailing legislation. The issue was redeemed on 20 December 2015.

- Second issue for a nominal amount of €4,000 thousand, divided into 4,000 bonds of €1,000 thousand par value each, all with the same rights. The issue was formalised in a public deed executed on 10 December 2008, and the subscription period was closed on 16 December 2008 with the offering fully subscribed at that date. These bonds are not listed and their maturity period is 10 years from the date the issue was closed, although the Bank is entitled to redeem the issue after five years from the issue closing date, subject to authorisation from the Bank of Spain. This issue is eligible as Tier 2 capital, in accordance with prevailing legislation.

- Third issue for a nominal amount of €3,000 thousand, divided into 3,000 bonds of €1,000 thousand par value each, all with the same rights. The issue was formalised in a public deed executed on 4 December 2009, and the subscription period was closed on 17 December 2009 with the offering fully subscribed at that date. These bonds are not listed and their maturity period is 10 years from the date the issue was closed, although the Bank is entitled to redeem the issue after five years from the issue closing date, subject to authorisation from the Bank of Spain. This issue is eligible as Tier 2 capital, in accordance with prevailing legislation.

- Fourth issue for a nominal amount of €2,300 thousand, divided into 2,300 bonds of €1,000 thousand par value each, all with the same rights. The issue was formalised in a public deed executed on 10 December 2010. These bonds are not listed and their maturity period is 10 years from the date the issue was closed, although the Bank is entitled to redeem the issue after five years from the issue closing date, subject to authorisation from the Bank of Spain. This issue is eligible as Tier 2 capital, in accordance with prevailing legislation.

- Fifth issue for a nominal amount of €1,200 thousand, divided into 1,200 bonds of €1,000 thousand par value each, all with the same rights. The issue was formalised in a public deed executed on 14 December 2011. These bonds are not listed and their maturity period is 10 years from the date the issue was closed, although the Bank is entitled to redeem the issue after five years from the issue closing date, subject to authorisation from the Bank of Spain. This issue is eligible as Tier 2 capital, in accordance with prevailing legislation.

The applicable interest rates are as follows:

- For the first issue, 3.25% per annum for the first three years and the 6-month Euribor plus 0.30% for subsequent periods.

- For the second issue, 4.00% per annum for the first six months and the 6-month Euribor plus 0.25% for subsequent periods.

- For the third issue, 4.00% per annum for the first three years and the 6-month Euribor plus 0.25% for subsequent periods.

- For the fourth issue, 4.00% per annum for the first two years and the 6-month Euribor plus 0.25% for subsequent periods.

- For the fifth issue, 4.30% per annum for the first three years and the 6-month Euribor plus 0.3% for subsequent periods.

b) Changes

Changes in nominal value recorded in the balance of this item during 2016 and 2015 were as follows:

	Thousands of Euros
2015 Opening balance	**16,500**
Redemptions	(6,000)
2015 Closing balance	**10,500**
Redemptions	(1,645)
Balance at 31 December 2016	**8,855**

Changes in the nominal value of these liabilities during the year ended 31 December 2015 primarily reflected the redemption on maturity of an issue amounting to €6,000 thousand.

c) Arbitration proceedings and claims arising from Burden Sharing

On 4 July 2013, as a result of the hybrid equity instrument and subordinated debt management transactions, the Bank executed the buyback and redemption of all of its subordinated bonds and preference shares.

At the date of authorisation for issue of these annual accounts, legal proceedings underway affect preference shares or subordinated debt with a nominal amount of €17,829 thousand (€30,205 thousand at 31 December 2015).

At the present date it is not possible to determine the overall impact of the legal proceedings relating to the swap of hybrid financial instruments, the outcome of which is pending, or the impact they could have in the future. To address any liabilities that might arise from these proceedings, the Bank has recognised a provision of €28,262 thousand (€85,161 thousand at 31 December 2015) (see Note 21). Furthermore, in accordance with the agreement for the sale-purchase of the Bank (see Note 1.2), the FROB has extended guarantees to the Bank to address the liability that could arise from these processes, and which have been recognised under assets as loans and receivables in the balance sheet. For the most part, they have been recognised by the FROB or are estimated based on assumptions at 31 December 2016.

20. Other financial liabilities

The breakdown of the balance of this item on the balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Commercial creditors	7,854	7,046
Tax collection accounts		
Central Government	9,291	10,595
Autonomous governments	1,171	1,354
Social security funds	2,044	2,016
Outstanding payment orders and traveller's cheques	13,881	18,298
Transactions on stock exchanges or organised markets		
pending settlement	1,539	570
Financial guarantees	6,944	6,163
Other	74,919	65,875
	117,643	**111,917**

In the above table, "Other" include the following:

- €38,280 thousand at 31 December 2016 (€45,346 thousand at 31 December 2015) relating to the extraordinary contribution approved by the Management Committee of the Deposit Guarantee Fund for Credit Institutions in 2012, estimated on the basis of contributions at 31 December 2011 and payable through annual instalments over a period of 10 years (see Notes 1.10 and 15).

- €36,357 thousand at 31 December 2016 relating to companies members of the consolidated tax group.

- €20,400 thousand at 31 December 2015 relating to the extraordinary contribution set out in Royal Decree-Law 6/2013, which was paid in 2016.

21. Provisions

The breakdown of the balance of this item on the accompanying balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Pensions and other post-employment defined benefit obligations	190,596	223,761
Outstanding legal proceedings and litigation in relation to taxes	2,614	4,803
Commitments and guarantees extended	79,381	98,023
Other provisions	246,328	157,078
	518,919	**483,665**

a) *Pensions and other post-employment defined benefit obligations*

An itemised breakdown of "Provisions - Pensions and other post-employment defined benefit obligations" in the above table is as follows:

	Thousands of euros	
	2016	2015
Defined benefit plans:		
Post-employment commitments	142,740	149,954
Early retirement commitments and labour agreements (*)	47,697	73,599
Other commitments	159	208
	190,596	**223,761**

(*) At 31 December 2016 this item includes €47,697 thousand relating to existing labour agreements (€73,599 thousand at 31 December 2015). See Note 2.12.

Post-employment defined contribution plans

ABANCA's pension commitments with serving and retired personnel have been externalised, mostly through the ABANCA personnel pension plan, and the remainder through insurance policies that are appropriate for the externalisation of these commitments.

Two pension funds are linked to the ABANCA personnel pension plan:

- "Fondo de Pensiones A del Personal de ABANCA", which is managed by ABANCA Vida y Pensiones de Seguros y Reaseguros, S.A.U. and for which the custodian is CECA. The members and beneficiaries of the former "Empleados Caixa Galicia" pension plan are included in this plan, as do the employees that have already joined ABANCA, including former Banco Etcheverría personnel.

- "Fondo de Pensiones B del Personal de ABANCA", which is managed by CASER Pensiones, S.A. and for which the custodian is CECA. The members and beneficiaries of the former "Personal Caixanova" pension plan are included in to this plan.

The ABANCA personnel pension plan, of which ABANCA became the sponsor on 7 October 2014, is the result of integrating the pension plans of the entities that gave rise to ABANCA. It is a hybrid employment pension plan, which for the most part covers defined contribution retirement commitments (exceptionally, and in view of the date on which they joined the Entity, there is still a small number of employees under a defined benefit scheme for this contingency), and defined benefits for the death and disability risk contingencies.

In 2016, as provided for in the Labour Agreement of 26 December 2014, the savings and retirement contributions set forth in the plan for each group or each defined contribution sub-plan were reinstated, although lowered by 50%. Contributions for all the contingencies covered by the plan (savings, retirement and risk) were made from the surplus amounts in each of the funds forming the plan.

In 2016 the members and beneficiaries of the Banco Etcheverría employment plan, as well as their economic rights held therein, were integrated into the A pension fund.

Post-employment defined benefit plans

Pursuant to the current labour agreements, the Bank has assumed the commitment to supplement the Social Security benefits that correspond to its retired personnel, current employees or beneficiary right holders, in the event of retirement.

These commitments are addressed by:

1. The aforementioned external pension plans, which encompass retired personnel and certain current employees.

2. Insurance policies: the Bank has insured the accrued obligations not financed through the pension plan, as well as the retirement commitments with certain personnel, through insurance policies with unrelated entities (Caser and CNP Vida, S.A. de Seguros y Reaseguros) and with related entities (ABANCA Vida y Pensiones de Seguros y Reaseguros, S.A.U.) that comply with the requirements set out in Royal Decree 1588/1999, of 15 October. Certain undertakings with retired personnel are insured through insurance policies with unrelated entities (CNP Vida, S.A. de Seguros y Reaseguros) that do not comply with the requirements of the aforementioned Royal Decree. At 31 December 2016 and 2015 the Bank has not made any payments in connection with this item.

Other long-term employee benefits

The Bank uses internal funds to cover commitments agreed with semi-retired and early-retired personnel prior to 2011, with early-retired personnel covered under the Agreement of 4 October 2010, and with personnel early-retired in 2011 not covered by the Agreement, the Labour Agreement of 22 March 2012 and that of 14 February 2013, as well as the loyalty bonus for Bank personnel in Portugal.

Details of the present value of post-employment and other long-term employee benefit commitments undertaken by the Bank, according to how these commitments are covered, and the fair value of the plan assets earmarked to cover the commitments, pursuant to the provisions of Bank of Spain Circular 4/2004 as amended, are as follows:

	Thousands of euros	
	2016	2015
Present value of accrued commitments	663,084	704,081
Pension Plans	428,048	461,748
Insurance policies	235,036	242,333
Other commitments (pre-2011 early retirements, partial retirements, Portugal loyalty bonus and labour agreements)	47,855	73,807
	710,939	777,888
Less – Fair value of plan assets	532,896	566,102
Net liabilities	**178,043**	**211,786**
Of which:		
"Unrecognised pension assets"	-	-
"Pension assets"	(12,553)	(11,975)
"Provisions - Pensions and other post-employment defined benefit obligations"	190,596	223,761
"Provisions - Pensions and other post-employment defined benefit obligations"	**190,596**	**223,761**
"Insurance contracts linked to pensions"	**150,926**	**153,836**
Group entities	136,823	139,088
Other entities	14,103	14,748

The present value of the commitments has been quantified by qualified independent actuaries, under their responsibility, applying the following criteria:

1. Calculation method for serving personnel: "Projected unit credit method", which considers that each year of service gives rise to an additional unit of benefit and values each unit separately.

2. The actuarial assumptions used are unbiased and mutually compatible. The most significant actuarial assumptions considered in the calculations were as follows:

Technical interest rate	Between -0.06% and 1.46%
Expected rate of return	Between 1.06% and 1.46%
Mortality tables	PERMF/-2000P
CPI growth	1.5%
Annual rate of pension revaluation	1.5%
Annual growth rate of wages	2.5%
Retirement age	64 – 65 years

The technical interest rate used was determined by reference to high-quality corporate bonds based on the average estimated duration of each commitment.

Changes to the main assumptions could affect the calculation of the commitments. A decrease or increase of 50 basis points in the discount rate would result, respectively, in an increase or decrease in the present value of post-employment obligations of +/- 6.26%. A decrease or increase of 50 basis points in the pension increase rate would result, respectively, in a decrease or increase in the present value of post-employment obligations of +/- 6.44%. These changes would be partially offset by increases or decreases in the fair value of the assets and of the insurance contracts linked to pensions.

For commitments undertaken through pension plans, the fair value of the assets has been measured as the value of the net assets of these plans at 31 December 2016, as certified by the management companies. For commitments undertaken through insurance policies (Caser, CNP Vida, S.A. de Seguros y Reaseguros and ABANCA Vida y Pensiones de Seguros y Reaseguros, S.A.), the fair value of the insurance contracts has been determined as the present value of the associated payment obligations.

Movement in provisions for pensions and similar obligations in the years ended 31 December 2016 and 2015 is shown below:

	Thousands of Euros
2015 Opening balance	**272,495**
Net allowance charged to profit or loss	
Finance cost (Note 29)	10,473
Rate of return of assets	(10,853)
Personnel expenses (Note 35)	13,670
Allowances for pension funds	(2,257)
Changes in value recognised in equity	15,066
Application of balances	(74,833)
2015 Closing balance	**223,761**
Net allowance charged to profit or loss	
Finance cost (Note 29)	9,444
Rate of return of assets	(10,006)
Personnel expenses (Note 35)	5,572
Allowances for pension funds	(10,241)
Changes in value recognised in equity	(2,561)
Application of balances	(25,373)
2016 Closing balance	**190,596**

The Bank recognises actuarial gains and losses in respect of commitments with early retirees and from labour agreements in the statement of profit or loss, as stipulated in Circular 5/2013.

Movement in the present value of the obligation accrued for other long-term employee benefits in 2016 and 2015 was as follows:

	Thousands of euros	
	2016	2015
Present value of obligations at 1 January	73,807	71,941
Current service cost	16	19
Interest cost	143	274
Past service cost	3,126	12,785
Disposals	-	-
Benefits paid	(28,255)	(17,122)
Actuarial (gains)/losses	(982)	(4,090)
Other changes	-	10,000
Present value of obligations at year-end	**47,855**	**73,807**

The Bank recognises actuarial gains and losses on defined benefit post-employment plans in equity, as stipulated in Circular 5/2013.

Details by nature of assets linked to the pension plans at the 2016 and 2015 reporting dates are as follows:

	Thousands of euros	
	2016	2015
Equity instruments	5,103	5,066
Insurance policies	497,577	535,070
Other	30,216	25,966
	532,896	**566,102**

Movement in the present value of the obligation accrued for defined benefit post-employment commitments in 2016 and 2015 was as follows:

	Thousands of euros	
	2016	2015
Present value of obligations at 1 January	704,081	827,727
Current service cost	3,408	4,956
Interest cost	10,785	11,645
Past service cost	-	-
Disposals	(17,135)	(23,148)
Benefits paid	(51,818)	(58,581)
Actuarial (gains)/losses (*)	13,763	(67,277)
Other changes	-	8,759
Present value of obligations at year-end	**663,084**	**704,081**

(*) In 2016 this includes €1,708 thousand in actuarial losses arising from demographic assumptions, €11,959 thousand in actuarial losses arising from financial assumptions and €96 thousand in actuarial losses arising from experience adjustments. In 2015 this included €1,744 thousand in actuarial gains arising from demographic assumptions, €65,777 thousand in actuarial gains arising from financial assumptions and €244 thousand in actuarial losses arising from experience adjustments.

Changes in the fair value of plan assets in 2016 and 2015 were as follows:

	Thousands of euros	
	2016	2015
Fair value of assets at 1 January	566,102	665,671
Expected rate of return of plan assets	9,106	10,157
Actuarial gains/(losses)	7,670	(49,656)
Contributions	2	(332)
Benefits paid	(43,098)	(50,199)
Disposals	(6,886)	(18,298)
Other changes	-	8,759
Fair value of assets at the reporting date	**532,896**	**566,102**

Changes in the fair value of reimbursement rights in 2016 and 2015 were as follows:

	Thousands of euros	
	2016	2015
Fair value of reimbursement rights at 1 January	153,836	164,318
Expected rate of return of plan assets	2,390	2,143
Actuarial gains/(losses)	3,533	(2,556)
Contributions	(214)	161
Benefits paid	(8,619)	(8,167)
Disposals	-	(2,063)
Fair value of reimbursement rights at the reporting date	**150,926**	**153,836**

Total expense recognised in the statement of profit or loss in 2016 and 2015 was as follows:

	Thousands of euros	
	2016	2015
Current service cost	3,426	4,956
Past service cost	3,127	12,803
Net interest cost	1,819	1,762
Of which:		
Interest cost	*9,444*	*10,473*
Expected rate of return of plan assets	*(7,625)*	*(8,711)*
Expected rate of return of reimbursement rights	(2,381)	(2,142)
Actuarial (gains)/losses on LTRR	(982)	(4,089)
Disposals	(10,241)	(2,257)
Total	**(5,231)**	**11,033**

Changes in valuation adjustments in equity due to actuarial gains and losses in 2016 and 2015 were as follows:

	Thousands of Euros
2015 Opening balance	**(10,716)**
Changes in actuarial losses and gains	15,066
2015 Closing balance	**4,350**
Changes in actuarial losses and gains	(2,561)
2016 Closing balance	**1,789**

b) Commitments and guarantees extended. Outstanding legal proceedings and litigation in relation to taxes

The breakdown of changes in the balance of this item in 2016 and 2015 is as follows:

		Thousands of euros		
	Provisions for commitments and guarantees extended	Provisions for outstanding legal proceedings and litigation in relation to taxes	Other provisions	Total
Balance at 1 January 2015	**97,197**	**-**	**300,538**	**397,735**
(Net) Allowance to profit or loss for the period	16,614	4,300	(13,847)	7,067
Provisions used and other	(17,600)	(3,638)	(87,822)	(109,060)
Transfers (Note 9.d)	1,812	4,791	(4,791)	1,812
Other changes	-	(650)	(37,000)	(37,650)
Balance at 31 December 2015	**98,023**	**4,803**	**157,078**	**259,904**
(Net) Allowance to profit or loss for the period	(21,458)	(732)	23,919	1,729
Provisions used and other	(306)	-	(62,669)	(62,975)
Transfers (Note 9.d)	3,122	-	-	3,122
Other changes	-	(1,457)	128,000	126,543
Balance at 31 December 2016	**79,381**	**2,614**	**246,328**	**328,323**

At 31 December 2016, "Other provisions" in the table above basically include the provisions recognised by the Bank to cover other liabilities of a specific nature, whether certain or contingent. These provisions consist of €158 million for the contingency arising from the court judgement on claims relating to mortgage floor clauses (see note 1.11); €18 million for claims concerning the arrangement of interest rate hedges tied to mortgage loans granted to families and self-employed persons (€23 million at 31 December 2015, see note 1.2); approximately €28 million for possible contingencies stemming from management of hybrid equity instruments and subordinated debt (€85 million at 31 December 2015, see note 1.2); and €42 million to cover commitments with third parties in connection with the Group's activity (€49 million at 31 December 2015), including provisions mainly originating from the Bank's restructuring (see note 1.2).

€128 million of the €158 million provision for mortgage floor clauses is covered by the existing guarantee set out in the sale-purchase agreement and is recognised under balance sheet assets as loans and receivables (see note 1.2), while €30 million was recognised in the statement of profit or loss in 2016.

In 2015 "Other changes" relates to the re-estimate of guarantees recognised, thus reducing the provision by €37,000 thousand.

22. Other liabilities

The breakdown of the balance of this item on the balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Salaries payable	19,589	22,439
Other accrued expenses	116,276	108,018
Transactions in transit	63,570	49,047
Lease transactions	397	20
Other	21,827	18,245
	221,659	**197,769**

At 31 December 2016 "Other accrued expenses" includes €35,218 thousand (€41,762 thousand at 31 December 2015) relating to the estimated expense accrued over the year for the ordinary contribution to the Deposit Guarantee Fund.

At 31 December 2016 and 2015, "Transactions in transit" basically include transactions between branches and centres of the Bank that have not arrived at the destination branch, and charges generated by different entities through the Savings Bank Exchange Service ("SICA") system, mainly corresponding to customers and which are applied in the days following their reception.

23. Accumulated other comprehensive income

a) Available-for-sale financial assets

At 31 December 2016 and 2015 this heading includes the net amount of changes in fair value of financial assets classified as available for sale. The table below provides a breakdown of the different types of securities that make up the balance of this heading:

	Thousands of euros	
	2016	2015
Debt securities	(41,014)	(26,002)
Equity instruments	(863)	(3,198)
	(41,877)	**(29,200)**

b) Cash flow hedges

This item reflects the portion of the net change in value of financial derivatives designated as cash flow hedging instruments determined to be an effective hedge (see Note 10).

c) Exchange differences

This heading shows the net exchange differences arising on non-monetary items whose fair value is adjusted with a balancing entry in equity, and the differences arising on the translation to Euros of the balances of companies whose functional currency is not the Euro.

24. Shareholders' equity

Shareholders equity reflects equity contributions made by shareholders (see Note 25), retained earnings recognised through profit or loss and other equity instruments of a permanent nature.

Changes in the different line items under this heading of the balance sheet for the years ended 31 December 2016 and 2015 is shown in the accompanying "Statement of changes in equity".

a) Share premium

The Consolidated Spanish Companies Law expressly allows the use of the share premium to increase capital, and does not set any specific restriction on its availability.

b) Legal reserve

In accordance with article 274 of the Consolidated Spanish Companies Law, companies that generate a profit for the period are required to transfer 10% of that profit to a legal reserve until such reserve reaches an amount equal to at least 20% of share capital. The legal reserve may be used to increase share capital provided that the balance left on the reserve is at least equal to 10% of the nominal value of the total share capital after the increase. Except for the aforementioned purpose, unless the legal reserve exceeds 20% of the share capital, it may only be used to offset losses if no other reserves are available. At 31 December 2016 and 2015, the Bank has appropriated to this reserve the minimum amount required by law.

25. Capital

At 31 December 2016 and 2015, the Bank's share capital totalled €2,453,657 thousand, divided into 2,453,657,413 shares with a par value of €1 each, all subscribed and fully paid up and with the same voting and profit-sharing rights.

The shareholders of the Bank at 31 December 2016 and 2015 are as follows:

	Percentage of Interest	
Shareholders	2016	2015
ABANCA Holding Financiero, S.A.	86.79%	86.79%
E.C. Nominees Limited	2.58%	2.61%
Other shareholders	1.87%	1.87%
Treasury shares	8.76%	8.73%
	100.00%	**100.00%**

The Bank's shares are not listed on the stock exchange.

Treasury shares

Details of the treasury shares held by the Bank at 31 December 2016 are as follows:

	No. of Shares	Nominal amount (Thousands of euros)	Average purchase price (euros)	Total acquisition cos (Thousands of euros)
Treasury shares	214,852,349	214,852	1.04735	225,026

Details of the treasury shares held by the Bank at 31 December 2015 are as follows:

	No. of Shares	Nominal amount (Thousands of euros)	Average purchase price (euros)	Total acquisition cos (Thousands of euros)
Treasury shares	214,310,809	214,311	1.04474	223,900

At the date of authorisation for issue of these annual accounts, the Board of Directors has not reached a decision on the final use to which the aforementioned treasury shares will be put.

26. Taxation

26.1. Tax consolidation

The Bank benefits, for financial years starting on or after 1 January 2015, from the tax consolidation regime regulated under Title VII, Section VII of law 27/2014, of 27 November, on Corporate Income Tax (hereinafter, "CIT"). ABANCA Holding Financiero, S.A. is the parent of the tax group.

Subsidiaries of the Consolidated Tax Group are those companies meeting the requirements defined thereto in the regulatory framework on taxation of consolidated earnings of Groups of Companies. At the 2016 reporting date, the Consolidated Tax Group, which has been assigned number 343/15, includes the following companies:

Subsidiaries	T.I.N.
ABANCA Corporación Bancaria, S.A.	A-70.302.039
ABANCA Corporación Industrial y Empresarial, S.L.U.	B-15.125.057
ABANCA Corporación, División Inmobiliaria, S.L.U.	B-70.193.321
ABANCA Gestión Operativa, S.A.	A-15.126.923
ABANCA Invest, S.L.	B-70.506.654
ABANCA Mediación Correduría de Seguros Generales, S.A.	A-15.232.135
ABANCA Mediación Operador de Banca-Seguros Vinculado, S.L.	B-70.049.630
ABANCA Vida y Pensiones de Seguros y Reaseguros, S.A.	A-15.140.387
Complejo Residencial Marina Atlántica S.L.	B-36.968.071
Construziona Galicia, S.L.	B-36.946.929
Copronova, S.L.	B-36.912.715
Corporación Empresarial de Representación Participativa, S.L.	B-79.526.679
Corporación Empresarial de Tenencia de Activos de Galicia, S.L.	B-70.040.548
Corporación Empresarial y Financiera de Galicia, S.L.U.	B-83.520.643
Daenpa, S.L.U.	B-15.913.510
Espacios Termolúdicos, S.A.	A-15.945.793
G.P.S. del Noroeste 3000, S.L.	B-14.715.270
Hispano-Lusa Compañía Tecnológica de Edificación, S.A.	A-32.280.919
Instituto Educación Superior Intercont. Empresa, S.L.	B-70.480.983
Jocai XXI, S.L.U.	B-15.939.689
Quaere Investment, S.L.	B.70.485.651
Torre de Hércules Participaciones Societarias, S.L.	B-83.803.213
Torres del Boulevar, S.L.U.	B-18.721.043
Vibarco, S.L.U., Sociedad Unipersonal	B-27.720.085

From 2011 to 2014, the Bank benefited from the tax consolidation regime regulated under Title VII, Chapter VII of the Consolidated Corporate Income Tax Law enacted through Royal Legislative Decree 4/2004, of 5 March (hereinafter CCITL), as the parent of consolidated tax group no. 595/11. This Group ceased to exist when the ABANCA Holding Financiero, S.A. Group acquired control of this entity.

In compliance with the provisions of ICAC Resolution of 9 February 2016, the provision for income tax for the reporting period is calculated on the basis of accounting profit or loss, which is not necessarily the same as the taxable income/tax loss, and based on the balances of payables and receivables accrued between companies in the Consolidated Tax Group.

The fact that the Tax Group to which the Bank belongs files consolidated income tax returns does not mean that the income tax accrued differs greatly from the tax that would arise in the event of individual taxation. As such, in calculating the provision for this tax, there is no mention of the permanent or temporary differences stemming from the tax consolidation process.

The Bank files VAT returns as a Group subsidiary under the special regime set forth in Title IX, Chapter IX of Law 37/1992, of 28 December, which regulates this tax, with ABANCA Holding Financiero, S.A. as the parent.

26.2. Reconciliation of accounting profit with taxable income

The reconciliation of the Bank's accounting profit for 2016 and 2015 with its Corporate Income Tax taxable income is as follows:

	Thousands of euros	
	2016	2015
Profit/(loss) for the year	315,744	318,822
Corporate income tax	51,936	130,156
Profit/(loss) before tax	367,680	448,978
Permanent differences	14,790	(65,276)
Temporary differences		
Originating in the reporting period	163,354	393,353
Originating in the prior periods (net)	(195,802)	(236,064)
Tax base	**350,022**	**540,991**
Tax loss carryforwards	**(70,884)**	**(135,248)**
Tax base for the reporting period	**279,138**	**405,743**

When reconciling consolidated accounting profit of loss for 2016 with the taxable income for the year, consideration has been given to the limits on integrating into taxable income any charges that give rise to deferred taxes, as referred to in article 12.11 of the CIT Law, and to the application of tax loss carryforwards from prior periods, as referred to in transitional provision 36 and in additional provision 15 of the aforementioned Law.

26.3. Taxes recognised in equity

Irrespective of income tax charged to the statement of profit or loss, in 2016 and 2015 the Banks has included the tax effect of applying Bank of Spain Circular 4/2004 in connection with measurement of fixed-income and equity securities available for sale, measurement of derivatives designated as cash flow hedges, and other non-material items, which in 2016 resulted in a tax income of €16,285 thousand recognised directly in equity (tax income of €1,791 thousand in 2015) (see the "Statement of Recognised Income and Expense").

26.4. Deferred tax

a) Temporary differences

Due to the different recognition criteria applied to certain income and expenses for accounting and tax purposes, deferred tax assets and liabilities have arisen in connection with future deductible and taxable temporary differences, respectively.

The breakdown of the Bank's deferred tax assets and deferred tax liabilities at 31 December 2016 and 2015 is shown below:

	Thousands of euros			
	2016		2015	
	Tax assets - deferred	Tax liabilities - deferred	Tax assets - deferred	Tax liabilities - deferred
Amortisation of goodwill arising from BNP offices	2,214	-	2,674	-
Allowance for pension fund (net)	77,854	-	79,351	-
Credit loss and impairment allowances	2,367,619	-	2,447,535	-
Allocation of loan commissions	948	-	1,586	-
Fixed-income and equity portfolios valuation adjustments	33,626	(15,326)	21,953	(9,077)
Adjustments arising from foreign branches	38,158	-	43,571	-
Accelerated depreciation and amortisation Royal Decree-Law 3/1993		(68)	-	(66)
Depreciation and amortisation of revalued assets		(16,408)	-	(16,779)
Tax credits	747,230	-	729,787	-
Other	47,165	(3,693)	44,087	(17,220)
Total	**3,314,814**	**(35,495)**	**3,370,544**	**(43,142)**
Recognised in the balance sheet	**2,700,419**	**(35,495)**	**2,627,106**	**(43,142)**

Royal Decree-Law 14/2013, of 29 December

Royal Decree-Law 14/2013, of 29 December, on urgent measures to adapt Spanish law to European Union legislation on the supervision and solvency of financial institutions was published in the Official State Gazette ("BOE") on 30 November 2013. Effective 1 January 2014, this Royal Decree-Law appends additional provision twenty-two to the Consolidated Corporate Income Tax Law, which was approved by Royal Legislative Decree 4/2004, of 5 March, and provides for the conversion of deferred tax assets into receivables from the taxation authorities.

By virtue of the aforementioned article, deferred tax assets corresponding to provisions for impairment of receivables or other assets stemming from possible insolvencies of debtors not related to the taxpayer, providing that they are not subject to article 12.2.a) of the Consolidated Corporate Income Tax Law, as well as those stemming from the application of articles 13.1.b) and 14.1.f) thereof corresponding to provisions for or contributions to social welfare systems and, where appropriate, early-retirement schemes, shall be converted into a receivable from the taxation authorities, in any of the following circumstances:

- The taxpayer recognises accounting losses in its audited annual accounts authorised for issue by the corresponding governing body. In such cases, the amount of deferred tax assets to be converted is determined by multiplying the total amount thereof by the accounting losses for the period as a percentage of total capital and reserves.

- The entity is in liquidation or has been legally declared insolvent.

The conversion of deferred tax assets into a receivable from the taxation authorities, as described, means that the taxpayer may choose to request payment from the taxation authorities, or offset the receivables against other taxes payable to central government generated by the taxpayer as of the conversion date.

In addition, these deferred tax assets may be exchanged for public debt securities, once the statutory period for offsetting tax loss carryforwards has expired, calculated as of the recognition date of these assets.

In the same regulations, albeit effective retrospectively as of tax periods beginning on or after 1 January 2011, a new section 13 has been added to article 19 of the Consolidated Corporate Income Tax Law on the timing of recognition, for the purposes of determining the corporate income tax base.

By virtue of the aforementioned new section 13 of article 19 of the Consolidated Corporate Income Tax Law, the provisions for impairment of receivables or other assets stemming from possible insolvencies of debtors not related to the taxpayer (including those resulting from Royal Decree-Law 2/2012, Royal Decree-Law 18/2012 and Royal Decree 1559/2012 by virtue of the request for a binding ruling filed with the Directorate-General for Taxation), provided they are not subject to article 12.2.a) of the Consolidated Corporate Income Tax Law, as well as those resulting from application of articles 13.1.b) and 14.1.f) thereof corresponding to provisions for or contributions to social welfare systems and, where appropriate, early-retirement schemes, that have generated deferred tax assets, shall be integrated into the tax base, up to the limit of taxable income prior to their integration and to the offset of tax loss carryforwards.

In light of this new criterion for the timing of recognition, the Bank recalculated the corporate income tax bases for 2011 and 2012, which differ from the bases originally filed within the voluntary period, thus generating new tax bases that were duly notified to the taxation authorities.

Act 27/2014, of 27 November, on Corporate Income Tax (CIT Act)

The regime for conversion of deferred tax assets into a receivable from the taxation authorities, set out in article 130 of the CIT Law in force since 1 January 2015, is identical to that described above. Transitional provision 33 of the CIT Law establishes a conversion regime for deferred tax assets generated in tax periods beginning before 1 January 2016, by introducing a financial contribution that will result in an annual payment of 1.5% to maintain the right to monetise, applicable to the portion of deferred tax assets that meets the legal requirements to be considered as monetisable assets generated before 2016 (see Note 37).

Title IV, Chapter III of the Corporate Income Tax Regulations approved by Royal Decree 634/2015, of 10 July (hereinafter the CIT Regulations), develops the procedure for the offset and collection of receivables from the taxation authorities.

As a result of applying the above mentioned regulation, the Tax Group has estimated the deferred tax assets to be recognised by the different Group companies at 31 December 2016. The deferred tax assets identified for the Bank amount to €2,105,638 thousand (€2,083,061 thousand at 31 December 2015), and deferred tax assets identified at Group level in 2016 amount to €2,643,402 thousand (€2,613,467 in 2015). Pursuant to the CIT Law, these deferred tax assets are eligible for monetisation and recovery thereof is therefore ensured through the mechanisms therein set forth. In 2015 Spain completed the regulation of monetisable tax assets.

In 2016, the expense arising as a result of the estimates made at the end of the period and the application of the aforementioned regulation amounted to €51,936 thousand and was recognised under "Income tax expense or income related to profit or loss from continuing operations" in the accompanying statement of profit or loss for the year (€130,156 thousand in 2015). The amount recognised is the result of applying the current tax rate (30%) to the tax base as it is considered a tax asset that arises from amendment of the applicable tax regulations rather than from a contractual agreement between the parties. The balance shown under "Income tax expense or income related to profit or loss from continuing operations" on the consolidated statement of profit or loss mainly comprises the amount corresponding to the adjustment of expenses from prior years and foreign taxes of a nature similar to Spanish corporate income tax.

The breakdown of deferred tax assets recognised in the balance sheet at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Deferred tax assets qualifying for monetisation:		
On credit loss	2,042,672	2,021,693
On pensions	62,966	61,368
Subtotal: Balance of deferred tax assets qualifying for monetisation	**2,105,638**	**2,083,061**
Deferred tax assets non qualifying for monetisation:		
Fixed-income and equity portfolios valuation adjustments	33,626	21,953
On business plan	540,585	488,520
On deferred tax assets with similar reinvestment deadline	20,570	33,572
Subtotal: Balance of deferred tax assets not qualifying for monetisation	**594,781**	**544,045**
Total deferred tax assets recognised	**2,700,419**	**2,627,106**

As previously indicated, part of the deferred tax assets are payable by the taxation authorities in the aforementioned circumstances (assets convertible into receivables, or deferred tax credits). According to the above table, this portion amounts to €2,105,638 thousand at 31 December 2016 (€2,083,061 thousand at 31 December 2015). Recoverability is not dependent on future taxable profit, so the recognition thereof is justified in the aforementioned cases.

The Bank recognises deferred tax assets inasmuch as their future recovery is deemed probable based on existing forecasts of future taxable profits. The overwhelming majority of these tax assets stem from losses that arose in 2012 and 2013 as a result of identifiable factors that are unlikely to be repeated (essentially the property development business, which shrank into insignificance following its transfer to Sareb). In 2014, 2015 and 2016, the Bank reported profits. The business plan depicts a scenario in which taxable profits are generated, enabling the recovery of these tax assets. This plan, which was approved by the directors, has been updated to reflect the events of 2016 and the changes observed in certain parameters during the period. The plan considers a five-year period (2017 to 2021), at the end of which the Group would achieve a return on equity of approximately 10.6%. Based on a long-term forecast of estimated growth spanning 18 years, profits are expected to rise at a constant rate in subsequent years. This estimate, like any other estimate based on an assumption, is subject to amendment for future events, which could prospectively affect the value of net tax assets recognised by the Group.

Based on this analysis of future capacity to generate taxable profits, the Bank has recognised deferred tax assets not convertible into receivables amounting to €594,782 thousand at 31 December 2016 (€544,045 thousand at 31 December 2015), which are in addition to the aforementioned assets convertible into receivables (deferred tax credits) of €2,105,638 thousand (€2,083,061 thousand at 31 December 2015).

Deferred tax liabilities mainly include the tax effect of the revaluation of properties carried out in 2004 to adjust them to their fair value at that date. This revaluation was carried out in 2005 but was reflected in the balance sheet at 31 December 2004 through an accounting entry for first-time application of Circular 4/2004.

Royal Decree-Law 3/2016, of 2 December

On 3 December 2016 Royal Decree-Law 3/2016, of 2 December, introducing tax measures aimed at consolidating public finances and other urgent social measures, was published in the Official State Gazette ("BOE"). Under this Royal Decree-Law, from 1 January 2017 losses incurred on the transfer of investments in entities entitled to avail of the exemption provided for in article 21 of the CIT Law in respect of dividends and capital gains are not tax deductible. Consequently, in application of this legislation, deferred tax assets have been reduced by the amount of impairment, recovery of which is considered remote.

b) Tax credits: Tax loss carryforwards

Pursuant to the provisions of the Consolidated Corporate Income Tax Law and of Law 27/2014 on Corporate Income Tax, at 31 December 2016 and 2015, after calculating the corporate income tax provision, the Bank has unused cumulative individual tax loss carryforwards of €2,452,826 thousand and €2,523,708 thousand, respectively.

At the end 2016, the balance of tax loss carryforwards pending application results from the entitlement to off-set tax loss carryforwards generated by the Consolidated Group relating to the Bank on an individual basis that, pursuant to the rules of Article 81 of CCIT Law, arose from the extinction of Tax Group No. 595/11 in 2014, and from tax loss carryforwards included in the provision estimated for financial year 2016.

c) Deductions

Following calculation of the provision for corporate income tax, at 31 December 2016 the Bank has deductions available for offset on an individual basis in future years, within the time and quantitative limits set out in the tax regulations, amounting to €11,382 thousand (€27,331 thousand in 2015).

26.5. Other relevant tax information

a) Economic Interest Groupings (EIG)

The Bank forms part of several Economic Interest Groupings (EIG) which, in compliance with current tax regulations, allocate positive or negative tax bases, tax withholdings and tax credits to the members according to their respective ownership interest. The ownership interest in the aforementioned EIGs has not been taken into account with a view to reducing the income tax expense in either 2016 or 2015.

On 17 July 2013, the European Commission issued a press release announcing the decision on state aid granted to certain Economic Interest Groupings (EIG) and their investors and the compatibility with European regulations on state aid. The main consequences of the press release were that the tax lease system in force for Spanish shipyards between 2002-2011 was incompatible with EU regulations on state aid; the beneficiaries of the aid were only the investors and the Commission stipulates that the Spanish authorities are responsible for determining what portion of the aid is to be recovered for each EIG and its investors. However, the amount of aid to be reimbursed by each entity is not specified and, considering the associated risk as probable, the Bank therefore estimated the impact of this decision and recognised the corresponding provision under "Other provisions" in the balance sheet (see note 21).

On 17 December 2015, the Seventh Chamber of the General Court annulled Decision 2014/200/EU, considering that as there are no financial advantages for EIGs, the Commission's conclusion that these entities had been recipients of state aid was incorrect, as only the investors benefited from the tax and financial advantages of the tax regime. Furthermore, the Court considered that the Commission was wrong to state that there was a selective advantage and, therefore, state aid in favour of the EIGs and the investors.

This annulment has been appealed by the European Commission. The Bank considers that the possibility of the appeal being upheld is remote, and has therefore decided to release this provision.

b) Transactions undertaken during the year pursuant to Title VII, Chapter VIII of the CIT Law

In prior financial years the Group completed several corporate restructuring operations under the special regime of tax neutrality regulated in Title VII, Chapter VII of CIT Law (Title VII, Chapter VIII in the Consolidated Corporate Income Tax Law for financial years prior to 2015). Information on the operations involving the Bank, either on its own behalf or in the capacity of successor of other entities, is provided below. It should be noted that, where information is provided in aggregate form, the relevant information is available in disaggregated for every asset at the registered address of each company required to disclose:

			Thousands of euros	
Originating Entity	Operation completed	Financial year	Carrying Amount of Securities Delivered	Carrying Amount of Securities Received
ABANCA	Non-monetary contribution of interests in investees	2015	72,056	72,056
ABANCA	Merger with Banco Etcheverría	2014	-	-
NCG Banco	Non-monetary contribution of assets, 20/5	2013	19,726	19,726
NCG Banco	Transfer of bank branches business to Banco Etcheverría	2013	-	-
NCG Banco	Contribution of EVO Banco business unit	2013	110,000	110,000
NCG Banco	Non-monetary contribution of assets, 17/4	2012	203,765	203,765
NCG Banco	Non-monetary contribution of interests in investees 29/06	2012	44,758	44,758
NCG Banco	Non-monetary contribution of interests in investees 29/06	2012	1,130,657	1,130,657
NCG Banco	Partial split-off of NCG Corporación Industrial, S.L.	2012	170,367	170,367
NCG Banco	Merger of NCG División Grupo Inmobiliario, S.L.U. and CXG Grupo Inmobiliario Corporación Caixagalicia, S.L.U.	2012	-	-
NCG Banco	Non-monetary contribution of interests in investees 29/10	2012	421,296	421,296
NCG Banco	Non-monetary contribution of assets, 6/09	2011	154,561	154,561
Novacaixagalicia	Segregation of financial business in favour of NG Banco, S.A.	2011	1,084,188	1,084,188
Caixagalicia-Caixanova	Merger by creation of Novacaixagalicia	2010	-	-
Caixanova	Non-monetary contribution of Raminova Inversiones, S.L.	2006	10,150	10,150
Caixanova	Non-monetary contribution of Viñainvest, S.L.	2006	2,397	2,201
Caixanova	Non-monetary contribution of Inversiones Prethor, S.L.	2006	6,497	3,713
Caixanova	Non-monetary contribution of Grupo T Solar Global, S.A.	2008	850	850
Caixanova	Split-off of Vibarco, S.A.	2008	5,186	5,186
Caixanova	Merger of Sivsa Soluciones Informáticas, S.A.	2008	-	-
Caixa Galicia	Non-monetary contribution of assets, 29/12	2008	308,919	308,919
Caixanova	Non-monetary contribution of Filmanova Invest, S.A.	2009	326	326
Caixanova	Split-off of Centro de Atención de Llamadas, S.A.	2009	91	91
Caixa Galicia	Non-monetary contribution of assets, 29/06	2009	116,306	116,306
Caixa Galicia	Non-monetary contribution of assets, 28/12	2009	131,870	131,870
Caixanova	Non-monetary contribution of Vinum Terrae, S.L.	2010	2,665	2,665

The disclosures required by the Consolidated Corporate Income Tax Law and by Article 86 of the new Corporate Income Tax Law are included in the notes to the annual accounts of each company for those periods.

c) Statement of Article 135 of the Consolidated Corporate Income Tax Law - Accounting revaluations

Pursuant to the provisions of article 135 of Royal Legislative Decree 4/2004, of 5 March, which approved the Consolidated Corporate Income Tax Law (current Article 122 CIT Law), it is hereby stated that Caixa Galicia revalued part of its tangible assets in order to adjust them to fair value at 1 January 2004. This revaluation was not reflected in the corporate income tax base. The revaluation was carried out in 2005 but was reflected in the balance sheet at 31 December 2004 through an accounting entry for first-time application of Circular 4/2004.

The revaluations amounted to €168,096 thousand, as detailed below:

Affected assets	Amount (Thousands de Euros)
Buildings for own use	157,008
Rented buildings	11,088
Total	**168,096**

d) Tax periods open to inspection

At 31 December 2016 the Bank has open to inspection by the taxation authorities all main applicable taxes for the last four years in accordance with article 66 et seq. of the General Tax Law 58/2003, of 17 December.

In 2016, as a result of the tax inspection carried out by the taxation authorities, tax assessments were raised for periods up to 2010 inclusive, all of which were signed on an uncontested basis and declared final in 2016. These assessments did not represent a significant amount with respect to the annual accounts taken as a whole.

Due to the different possible interpretations of tax regulations, the results of any tax inspections performed by the taxation authorities for the years subject to verification could give rise to contingent tax liabilities that cannot be objectively quantified. Nevertheless, the board of directors considers that any tax liabilities that might arise would not significantly affect these consolidated annual accounts.

27. Guarantees Extended and Contingent Commitments Given

27.1. Guarantees extended

Financial guarantees are the amounts that would be payable by the Bank on behalf of third parties as a result of the commitments undertaken by those entities in the ordinary course of business, if the parties who are originally liable for payment fail to do so.

The breakdown of the maximum risk assumed by the Bank in respect of financial guarantees at 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Bank guarantees and other indemnities	801,248	794,963
Irrevocable documentary credits	39,101	67,556
Credit derivatives sold	193,385	157,924
Other documentary credits	13,271	14,615
Other	151,126	144,469
	1,198,131	**1,179,527**

A significant portion of these amounts will expire without generating any payment obligations for the Bank. The total balance of these commitments can therefore not be considered an actual requirement for future financing or cash to be extended to third parties.

Income from guarantees is recognised under "Fee and commission income" and "Interest income" (at the restated value of the fees and commissions) in the statement of profit or loss. The income is calculated by applying the interest rate for the guaranteed contract to the nominal amount of the associated guarantee.

Provisions made to secure the guarantees extended, which have been calculated using criteria similar to those used to calculate impairment of financial assets at amortised cost, are recognised under "Provisions – Commitments and guarantees extended" (see Note 21.b).

At 31 December 2016 the Bank has guarantees extended by third parties amounting to €39,072 thousand (€44,952 thousand at 31 December 2015).

27.2. Assets pledged as collateral

At 31 December 2016, the carrying amount of the Bank's financial assets pledged as collateral for certain liabilities or contingent liabilities assumed by the Bank totals €5,492,620 thousand (€5,559,434 thousand at 31 December 2015) (see Notes 7 and 9).

27.3. Contingent commitments

The available amounts of the financing contracts extended by the Bank, at the close of 2016 and 2015, are shown below:

	Thousands of euros	
	2016	2015
Immediately available:		
Credit cards	867,274	935,614
General government sector	228,467	239,125
Other sectors	1,550,210	1,010,673
	2,645,951	**2,185,412**
Available subject to conditions:		
General government sector	23,743	23,743
Other sectors	1,888,375	1,598,251
	1,912,118	**1,621,994**
	4,558,069	**3,807,406**

At 31 December 2016 the Bank has other contingent commitments amounting to €22,051 thousand (€86,860 thousand at 31 December 2015).

27.4. Third-party funds managed and sold by the Group and securities custodian services

By virtue of a contract entered into on 21 December 2012 by the Bank and certain Group companies with Sareb, and effective as from 31 December 2012, the Bank temporarily undertook the administration and management of the transferred assets owned by Sareb.

The contract had a 12-month term that could be extended at the request of Sareb. In December 2014, Sareb awarded the administration and management of the assigned portfolio of assets to another entity which was to act as the new servicer. However, the asset administration and management agreement signed with ABANCA provided for the negotiation of a Succession Protocol agreement to enable an orderly assignment of the management and the migration of information. In July 2015 a final agreement was reached with another entity and the migration took place.

As a result of the aforementioned administration and management, the Bank was remunerated with certain fixed commissions according to the volume of assets managed and variable commissions based on a range of milestones. In 2015, commissions arising from this contract totalled €23,677 thousand and were recognised under "Other operating income" in the accompanying statement of profit or loss (see note 34). The collaboration with Sareb and management of the assets on its behalf was discontinued in October 2015, therefore there are no billings in this respect in 2016.

At 31 December 2016 and 2015 the breakdown of off-balance sheet customer funds managed by the Bank is as follows:

	Thousands of euros	
	2016	2015
Investment funds (*)	2,497,455	2,081,390
Pension funds	1,333,147	1,306,292
Securities deposited by third parties	3,590,261	4,281,426
Insurance products	966,857	888,739
	8,387,720	**8,557,847**

(*) At 31 December 2016, the guaranteed value of the secured funds issued by the Bank totals €19,526 thousand (€133,431 thousand at 31 December 2015).

27.5. Assets received as collateral

At 31 December 2016 and 2015, the breakdown of assets received as collateral for loans over which the Bank has the powers of disposal is as follows:

	Thousands of euros	
	2016	2015
Customer deposits pledged	801,805	718,187
Customer securities pledged	96,130	118,749
Investment funds shares/units pledged	14,743	12,171
	912,678	849,107

28. Interest Income

This item comprises the interest accrued in the period on financial assets with an implicit or explicit return, calculated by applying the effective interest rate method, irrespective of measurement at fair value; and the rectification of income originating from hedge accounting.

The breakdown of the most significant sources of interest income accrued by the Bank in the years ended 31 December 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Deposits in central banks	32	130
Deposits in credit institutions	5,947	1,831
Loans and advances to customers	495,113	556,435
Debt securities	89,724	170,766
Non-performing assets	52,895	69,402
Rectification of income originating from accounting hedges (Note 10)	111,777	98,358
Other income	16,844	12,690
	772,332	909,612

The breakdown of the amounts recognised under "Interest income" in the accompanying statements of profit or loss for 2016 and 2015, by portfolio of financial instruments that originated them, is shown below:

	Thousands of euros	
	2016	2015
Available-for-sale financial assets	82,845	108,367
Held-to-maturity investments	-	24,936
Financial assets held for trading	1,796	5,172
Loans and receivables	565,833	661,926
Rectification of income originating from accounting hedges (Note 10)	111,777	98,358
Other income	10,081	10,853
	772,332	909,612

29. Interest expense

This item reflects the interest accrued in the period on financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest rate method, irrespective of measurement at fair value; the rectification of costs originating from hedge accounting; and the interest cost attributable to pension funds.

A breakdown of this heading of the accompanying statements of profit or loss for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Deposits from central banks	1,614	2,970
Deposits from credit institutions	20,124	26,053
Deposits from customers	217,954	340,464
Debt securities issued	32,494	39,982
Subordinated liabilities (Note 19.d)	9	42
Rectification of costs originating from accounting hedges (Note 10)	118,824	103,343
Cost attributable to pension funds created (Notes 2.12.1 and 21.a)	9,444	10,473
Other charges	604	324
	401,067	**523,651**

The breakdown of the amounts shown in the table above, by portfolio of financial instruments that originated them, is as follows:

	Thousands of euros	
	2016	2015
Financial liabilities at amortised cost	272,773	409,817
Rectification of costs originating from accounting hedges (Note 10)	118,824	103,343
Other costs	9,470	10,491
	401,067	**523,651**

30. Dividend income

This item comprises the dividends and payments on equity instruments deriving from profits generated by investees after the acquisition of the equity investment.

A breakdown, by portfolio, by nature of the financial instrument and by type of originating entity, of this caption of the accompanying statements of profit or loss for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Equity instruments classified as:		
Investments in subsidiaries, joint ventures or associates (Note 12)	70,532	50,000
Available-for-sale financial assets (Note 8)	5,836	2,628
	76,368	**52,628**
Nature of capital instruments:		
Listed	1,539	2,512
Unlisted	74,829	50,116
	76,368	**52,628**
Originating entity:		
Subsidiaries (Note 12)	70,532	50,000
Other entities (Note 8)	5,836	2,628
	76,368	**52,628**

In 2016 the amount recorded under "Subsidiaries" in the foregoing table mainly relates to ABANCA Corporación Industrial y Empresarial, S.L.U interim dividend for 2016 amounting to €70,000 (€50,000 thousand in 2015) (see Note 12).

31. Fee and Commission Income

This item comprises the amount of fees and commissions accrued in the period, except those forming an integral part of the effective interest rate on financial instruments.

Details of the fee and commission income accrued by the Bank in the financial years ended 31 December 2016 and 2015, broken down according to the main items that originated it, are as follows:

	Thousands of euros	
	2016	2015
Fee and commission income		
Arising from guarantees and contingent commitments	14,814	20,528
Arising from collection and payment services	66,067	61,818
Arising from exchange of foreign currencies and banknotes	327	310
Arising from non-banking services	27,698	27,909
Arising from securities services	3,281	3,721
Other	36,553	31,080
	148,740	**145,366**

32. Fee and Commission Expense

This item comprises the amount of all fees and commissions paid or payable accrued in the year, except those forming an integral part of the effective interest rate on financial instruments.

Details of the fee and commission expense accrued in the financial years ended 31 December 2016 and 2015, with a breakdown of the main items that originated it, are as follows:

	Thousands of euros	
	2016	2015
Fees and commissions assigned to other entities and correspondents	3,173	4,068
Other fees and commissions	13,590	12,185
	16,763	16,253

33. Gains or Losses on Financial Assets and Liabilities

This note groups together the following line items of the statement of profit or loss: "Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net", "Gains or losses on financial assets and liabilities held for trading, net" and "Gains or losses on hedge accounting, net".

"Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net" include the amount of gains or losses resulting from the derecognition of financial assets and liabilities measured at cost and amortised cost, and those classified as available for sale, except investments in Group companies, jointly controlled entities and associates and instruments classified as non-current assets and disposal groups held for sale.

"Gains or losses on financial assets and liabilities held for trading, net" include the amount of gains or losses on financial instruments held for trading, except those attributable to interest accrued applying the effective interest method.

"Gains or losses on hedge accounting, net" includes the gains and losses arising from hedging instruments and from hedged items in fair value hedges, as well as the ineffective portion of cash flow hedges and hedges of net investments in foreign transactions recognised in profit or loss.

A breakdown of this heading of the accompanying statements of profit or loss for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	46,561	320,835
Gains or losses on financial assets and liabilities held for trading, net	9,217	(3)
Gains or losses on hedge accounting, net	(2,326)	(587)
	53,452	320,245

A breakdown, by origination and account classification of line items included, of the balance of the item in the accompanying statements of profit or loss for 2016 and 2015 is follows:

	Thousands of euros	
	2016	2015
Financial assets held for trading	9,217	(3)
Available-for-sale financial assets (Notes 7 and 8)	46,950	37,587
Held-to-maturity investments (Note 7)	-	295,519
Financial liabilities at amortised cost	(137)	(10,999)
Derivatives - hedge accounting	(2,326)	(587)
Trading derivatives	-	-
Other	(252)	(1,272)
	53,452	320,245

"Available-for-sale financial assets" and "Held-to-maturity investments" include the gains generated on the sale, at arm's length on organised markets, of some of the securities in this portfolio.

During the first quarter of 2015 the Bank sold a significant portion of its portfolio of debt securities classified as held-to-maturity investments (see Note 7). The remaining financial assets in this category were reclassified to the portfolio of available-for-sale financial assets (see Note 7). As a result of the sale of held-to-maturity investments, the Bank will not be able to classify any amounts in this category in the coming year.

Details of this caption of the accompanying statements of profit or loss for 2016 and 2015 by nature of the financial instruments that gave rise to these balances are as follows:

	Thousands of euros	
	2016	2015
Debt securities	55,825	319,826
Equity instruments	(5,075)	13,276
Derivatives	5,417	(586)
Other	(2,715)	(12,271)
	53,452	**320,245**

34. Other operating income

A breakdown of this heading of the accompanying statements of profit or loss for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Income from investment properties and operating leases	5,681	4,423
Other	19,172	45,976
	24,853	**50,399**

During 2015 the Group received remuneration for managing Sareb's assets, accruing fees and commissions amounting to €23,677 thousand, which were recognised under “Other” (see note 27.4).

35. Personnel expenses

This item comprises all remuneration of permanent and temporary personnel on the payroll, irrespective of their functions or activity, accrued in the period for all items, including the current service cost in respect of pension schemes, remuneration based on own equity instruments and expenses capitalised as part of the value of assets.

The breakdown of "Personnel expenses" in the accompanying statements of profit or loss for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Salaries and wages	202,626	211,988
Social Security contributions	50,269	51,437
Contributions to defined benefit pension plans (Note 21.a)	5,572	63
Contributions to defined contribution pension plans (Note 21.a)	-	3,605
Termination benefits (Note 21.a y 2.12.2.3)	-	10,002
Other personnel expenses	7,943	11,554
	266,410	**288,649**

The Bank's average headcount in 2016 and 2015, distributed by professional category and gender, as well as the number of employees at 31 December 2016 and 2015, are as follows:

Financial Year 2016

	Average number of employees			Number of Employees at 31.12.2016	
	Men	Women	Total	Men	Women
Senior Management	12	1	13	12	1
Managers and Technicians	1,597	1,246	2,843	1,599	1,266
Other clerical and commercial personnel	435	775	1,210	413	738
Auxiliary personnel	4	-	4	3	-
	2,048	**2,022**	**4,070**	**2,027**	**2,005**

Financial Year 2015

	Average number of employees			Number of Employees at 31.12.2015	
	Men	Women	Total	Men	Women
Senior Management	12	1	13	12	1
Managers and Technicians	1,624	1,258	2,882	1,582	1,238
Other clerical and commercial personnel	497	855	1,352	463	802
Auxiliary personnel	8	1	9	5	-
	2,141	**2,115**	**4,256**	**2,062**	**2,041**

At 31 December 2016 and 2015, the Bank had 40 and 42 employees, respectively, with a disability rating of 33% or above.

36. Other administrative expenses

A breakdown of this heading of the accompanying statements of profit or loss for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Property, fixtures and materials	23,536	35,900
Information technology	37,388	44,336
Advertising and publicity	23,998	36,920
Communications	14,227	17,310
Taxes	6,038	5,331
Other administrative expenses	18,342	19,988
Legal expenses and attorney fees	4,207	3,629
Technical reports	6,084	8,615
Entertainment and personnel service expenses	3,563	3,728
Surveillance and security carriage services	6,032	5,896
Insurance premiums	2,208	3,358
Governing and control bodies	2,224	2,039
Other expenses	3,159	15,267
	151,006	**202,317**

Other information

KPMG Auditores, S.L., the auditor of the Bank's annual accounts, invoiced fees for professional services during the years ended 31 December 2016 and 2015, as follows:

	Thousands of euros	
	2016	2015
Audit services	286	371
Other audit-related services	73	56
Total audit and audit-related services	**359**	**427**
Tax services	-	-
Other services	-	-
Total services	**359**	**427**

Other entities affiliated with KPMG International invoiced the Entity fees and expenses for professional services during the years ended 31 December 2016 and 2015, as follows:

	Thousands of euros	
	2016	2015
Audit services	-	-
Other services	2,581	540
	2,581	**540**

The difference between 2015 and 2016 as regards other services is mainly due to advisory work in relation to portfolios of non-performing and written-off assets sold by the Bank in 2016.

The amounts detailed in the above tables include the total fees for audit services rendered in 2016 and 2015, irrespective of the date of invoice, while the fees for other services reflect services billed during 2016 and 2015.

37. Other operating expenses

A breakdown of this heading of the accompanying statements of profit or loss for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Contribution to Deposit Guarantee Fund and Resolution Fund (Note 1.10)	45,290	54,759
Investment property expenses	1,418	1,281
Other	44,245	24,792
	90,953	**80,832**

The balance recognised under other items at 31 December 2016 includes €36,000 thousand for the annual payment of 1.5% to maintain the right to monetise the portion of the deferred tax assets that meets the legal requirements to be considered as monetisable assets generated before 2016.

38. Gains or losses on derecognition of non-financial assets and investments, net

A breakdown of this heading of the accompanying statements of profit or loss for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
On disposals of tangible assets	-	-
On disposal of investments in subsidiaries, joint ventures and associates (Note 12)	(385)	74,713
Other	81,369	18,434
	80,984	**93,147**

In 2015, "Gains on disposal of investments in subsidiaries, joint ventures and associates" included €71,900 thousand relating to the proceeds of the sale of ABANCA II Vida y Pensiones de Seguros y Reaseguros, S.A. (see Note 12).

At 31 December 2016 the balance under "Other" mainly relates to the gains arising from the sale of portfolios of impaired loans, derecognised from the balance sheet (see Note 9.f)).

At 31 December 2015, the balance under "Other" mainly related to the proceeds from the sale of the business of investment product custodian during the year.

39. Related Parties

In addition to the information contained in Note 4 above on balances and transactions with members of the Bank's Board of Directors and its Senior Management personnel, the balances at 31 December 2016 and 2015 originating from transactions carried out by the Bank as well as income and expenses arising therefrom in 2016 and 2015 are as follows:

At 31 December 2016

	Thousands of euros			
	Subsidiary companies	Associates	Joint Ventures	Other related parties
Assets:				
Deposits in credit institutions	-	-	-	9,880
Loans and advances to customers	814,882	71,724	-	4,229
Liabilities:				
Deposits from credit institutions	-	-	-	2,738
Deposits from customers	1,391,373	17,086	-	1,440
Other financial liabilities	-	-	-	36,357
GAINS AND LOSSES:				
Debit:				
Interest expense	32,875	20	-	-
Credit:				
Interest Income	32,742	1,990	-	-
Fee and Commission Income	19,484	213	-	-
Off-balance sheet items	14,536	9,421	-	-

At 31 December 2015

	Thousands of euros			
	Subsidiary companies	Associates	Joint Ventures	Other related parties
Assets:				
Deposits in credit institutions	-	-	-	35,543
Loans and advances to customers	729,961	108,538	-	1,461
Liabilities:				
Deposits from credit institutions	-	-	-	1,820
Deposits from customers	1,091,627	14,745	7	1,170
Other financial liabilities				
GAINS AND LOSSES:				
Debit:				
Interest expense	27,835	83	-	-
Credit:				
Interest Income	30,786	3,526	-	-
Fee and Commission Income	18,043	183	4	-
Off-balance sheet items	16,021	12,681	20	-

The transactions set out in the previous sections were performed as part of the ordinary course of the Bank’s business with its customers and under market conditions, although the conditions normally arranged with Bank employees were applied where appropriate.

Aside from the above, there are legal entities and individuals which fall under the category of related parties and regularly carry out transactions with the Bank that could be considered typical of a normal business relationship with a financial institution. These transactions are not for significant amounts and are carried out under market or employee terms, as applicable.

40. Segment reporting

40.1. Segmentation criteria

The lines of business described below have been defined on the basis of the organisational structure of the Bank, with the business structure divided into the following areas:

1. Retail banking: This encompasses the financial activity carried out with private individuals, companies and public entities, whether through the network of branches or through alternative distribution channels (Internet, Electronic Banking, Mobile Banking, etc.).

2. Singular Assets: This unit consists of teams specialised in the management of loan assets with significant weaknesses. Its main activity centres on divestitures, seeking alternatives to make transactions feasible for borrowers experiencing difficulties, and optimisation of recoveries. This unit also manages real estate assets foreclosed by the Bank, so as to enhance their value and enable their disposal.

3. Wholesale banking: This basically includes treasury transactions and activity in financial markets (issues, fixed income and equities portfolio).

40.2. Basis and methodology used in compiling segment reporting

The segment reporting given below is based on the monthly reports drawn up from the information provided by a management control software application.

The structure of this information is designed as if each line of business were a separate business and the net interest and revenues of the lines of business are calculated by applying arm's length transfer prices to the corresponding assets and liabilities. Returns from the equity portfolio are distributed among the lines of business based on their respective percentage interest.

Administrative expenses include direct and indirect costs and are distributed among the lines of business and support service units on the basis of the internal use made of the services.

The assets distributed between the different business segments include assets held for trading, securities and loans and receivables from financial institutions and customers, net of the corresponding provision for losses. The liabilities distributed among the different business segments encompass debt securities issued and payables to financial institutions and customers.

40.3. Segment reporting

The following tables show segment reporting by business segment:

At 31 December 2016

	Thousands of euros			
	Retail banking	Singular Assets	Wholesale banking	Total
Net interest income	**440,833**	**25,846**	**(95,414)**	**371,265**
Dividend income (Note 30)	-	-	76,368	76,368
Fee and commission income and expense (Notes 31 and 32)	130,289	1,464	224	131,977
Gains or losses on financial assets and liabilities (Note 33) (*)	864	45	52,543	53,452
Exchange differences	1,519	5	7,109	8,633
Other operating income and expenses (Notes 34 and 37)	(43,469)	(1,604)	(21,027)	(66,100)
Gross margin	**530,036**	**25,756**	**19,803**	**575,595**
Personnel expenses (Note 35)	(229,244)	(25,864)	(11,302)	(266,410)
Other administrative expenses, depreciation and amortisation	(155,260)	(22,067)	(4,577)	(181,904)
Provisions or reversal of provisions, and Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	161,802	(43,618)	40,116	158,300
Net Operating Income	**307,334**	**(65,793)**	**44,040**	**285,581**
Impairment or reversal of impairment of investments in joint ventures or associates and non-financial assets	-	638	(1,248)	(610)
Gains or losses on derecognition of non-financial assets and investments, net (Note 38)	-	80,984	-	80,984
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	1,725	-	1,725
Profit or loss before tax	**307,334**	**17,554**	**42,792**	**367,680**

(*) *Includes gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net; gains or losses on financial assets and liabilities held for trading, net; gains or losses on assets and liabilities designated at fair value through profit or loss, net; and gains or losses on hedge accounting, net.*

	Thousands of euros			
	Retail banking	Singular Assets	Wholesale banking	Total
Assets	27,644,305	338,786	17,034,720	45,017,811
Liabilities and Equity	30,376,624	83,699	14,557,488	45,017,811
Pooling	**(2,732,319)**	**255,087**	**2,477,232**	**-**

At 31 December 2015

	Thousands of euros			
	Retail banking	Singular Assets	Wholesale banking	Total
Net interest income	**424,984**	**30,652**	**(69,675)**	**385,961**
Dividend income (Note 30)	-	-	52,628	52,628
Fee and commission income and expense (Notes 31 and 32)	125,859	3,950	(696)	129,113
Gains or losses on financial assets and liabilities (Note 33) (*)	967	70	319,208	320,245
Exchange differences	1,519	9	8,425	9,953
Other operating income and expenses (Notes 34 and 37)	(51,476)	17,152	3,891	(30,433)
Gross margin	**501,853**	**51,833**	**313,781**	**867,467**
Personnel expenses (Note 35)	(245,650)	(30,753)	(12,246)	(288,649)
Other administrative expenses, depreciation and amortisation	(204,141)	(21,941)	(6,741)	(232,823)
Provisions or reversal of provisions, and Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(37,206)	(264,714)	2,616	(299,304)
Net Operating Income	**14,856**	**(265,575)**	**297,410**	**46,691**
Impairment or reversal of impairment of investments in joint ventures or associates and non-financial assets	-	294,107	(183)	293,924
Gains or losses on derecognition of non-financial assets and investments, net (Note 38)	-	93,147	-	93,147
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	15,216	-	15,216
Profit or loss before tax	**14,856**	**136,895**	**297,227**	**448,978**

(*) Includes gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net; gains or losses on financial assets and liabilities held for trading, net; gains or losses on assets and liabilities designated at fair value through profit or loss, net; and gains or losses on hedge accounting, net.

	Thousands of euros			
	Retail banking	Singular Assets		

			Wholesale banking	Total
Assets	26,431,412	397,642	20,168,751	46,997,805
Liabilities and Equity	29,797,949	82,231	17,117,625	46,997,805
Pooling	**(3,366,537)**	**315,411**	**3,051,126**	**-**

41. Liquidity Risk of Financial Instruments

The Treasury and Capitals Market Department, based on guidelines issued by the Assets and Liabilities Committee, manages the liquidity risk inherent to the activity and to financial instruments, to ensure that there is sufficient liquidity at all times to meet the payment obligations associated with settling liabilities, on their respective maturity dates, without compromising the Bank's capacity to swiftly respond to strategic opportunities in the market.

As regards liquidity risk, and pursuant to best practices, the board of directors is the body with ultimate responsibility for managing this risk, a task that it delegates to the Comprehensive Risk Commission with regard to supervising compliance with the control and review mechanisms of the policy, strategies and high-level limits of the liquidity risk, as well as coordination with the Bank's other risks. In this regard, the Bank has defined a series of measurements based on its risk profile, aimed at ensuring that the Bank at all times has a minimum proportion of liquid funds available to address unexpected liquidity outflows.

Liquidity risk management involves planning for resource requirements, paying special attention to the diversification of products, sources of funding, costs and periods of transactions. A diversified portfolio of liquid assets is maintained, which could be used as collateral in financing transactions or promptly enforceable transactions.

To manage the liquidity risk, the Bank uses a centralised approach, applying integrated software tools with which the analyses are performed. Notable among the techniques used are: i) analysis of available liquid assets and encumbered assets; ii) generation of regulatory and internal liquidity ratios; iii) monitoring of instruments arranged and their maturities; iv) stress test scenarios over different time horizons; v) control of intraday liquidity.

The position with regard to the Bank's liquidity risk is established based on an analysis of the situation at the outset and the projected situation. These analyses not only consider normal market conditions, but also extreme conditions that could arise and affect the value of the assets or the flow of the Bank's receipts and payments, due to various factors. The scenarios considered include systemic and idiosyncratic crisis scenarios and combined stress scenarios. Periodic and even daily monitoring is performed in normal scenarios under budgetary projections and under adverse stress scenarios that have evidenced the strength of the Bank's liquidity.

A breakdown, by maturity period, of the different headings of the balance sheet at 31 December 2016 and 2015 in a "normal market conditions" scenario is as follows:

At 31 December 2016

	Thousands of euros						
	Demand	Up to 1 Month	Between 1 and 3 Months	Between 3 and 12 Months	Between 1 and 5 Years	More than 5 Years	Total
ASSETS:							
Cash, cash balances with central banks and other demand deposits and loans and advances to credit institutions (Notes 5 and 6)	237,037	347,293	23,717	189,735	13	-	797,795
Loans and advances to customers (Note 9)	95,694	521,687	901,105	2,720,186	8,450,015	15,252,509	27,941,196
Fixed income portfolio (Note 7)							
Available for sale	-	-	222	80,662	3,281,682	2,254,919	5,617,485
Held-to-maturity investments	-	-	-	-	-	-	-
Financial assets held for trading	-	-	-	-	-	-	-
Loans and receivables	-	-	-	-	-	3,734,502	3,734,502
Equity portfolio (Note 8)							
Available for sale	-	-	-	-	-	108,430	108,430
Investments in joint ventures or associates (Note 12)	-	-	-	-	-	2,389,784	2,389,784
Trading derivatives (Note 10)	141,046	-	-	-	-	-	141,046
Derivatives - hedge accounting (Note 10)	57,919	-	-	-	-	-	57,919
Non-current assets and disposal groups classified as held for sale (Note 11)	158,342	-	-	-	-	-	158,342
Tangible assets (Note 13)	994,233	-	-	-	-	-	994,233
Intangible assets (Note 14)	10,369	-	-	-	-	-	10,369
Tax assets (Note 26)	-	-	-	-	-	2,791,784	2,791,784
Other assets (Note 15)	274,926	-	-	-	-	-	274,926
Total at 31 December 2016	1,969,566	868,980	925,044	2,990,583	11,731,710	26,531,928	45,017,811
LIABILITIES:							
Deposits from credit institutions and Central Banks (Note 16).	-	694,370	750,858	60,578	2,443,404	28,567	3,977,777
Deposits from customers (Note 17)	18,442,919	1,558,498	2,889,030	8,363,952	1,854,992	1,965,617	35,075,008
Debt securities issued (Note 18)	-	-	15,000	-	797,246	-	812,246
Other financial liabilities (Note 20)	117,643	-	-	-	-	-	117,643
Trading derivatives (Note 10)	116,623	-	-	-	-	-	116,623
Derivatives - hedge accounting (Note 10)	149,478	-	-	-	-	-	149,478
Provisions (Note 21)	518,919	-	-	-	-	-	518,919
Other liabilities and tax liabilities (Notes 22 and 26)	257,154	-	-	-	-	-	257,154
Equity (Notes 23, 24 and 25)	-	-	-	-	-	3,992,963	3,992,963
Total at 31 December 2016	19,602,736	2,252,868	3,654,888	8,424,530	5,095,642	5,987,147	45,017,811

At 31 December 2015

	Thousands of euros						
	Demand	Up to 1 Month	Between 1 and 3 Months	Between 3 and 12 Months	Between 1 and 5 Years	More than 5 Years	Total
ASSETS:							
Cash, cash balances with central banks and other demand deposits and loans and advances to credit institutions (Notes 5 and 6)	429,839	622,104	-	10,324	383,705	-	1,445,972
Loans and advances to customers (Note 9)	40,581	984,465	955,476	2,843,013	10,284,000	11,689,790	26,797,325
Fixed income portfolio (Note 7)							
Available for sale	-	-	39,221	290,263	5,412,901	2,125,346	7,867,731
Held-to-maturity investments	-	-	-	-	-	-	-
Financial assets held for trading	-	11,268	-	-	64,650	21,182	97,100
Loans and receivables	-	-	-	-	-	3,920,400	3,920,400
Equity portfolio (Note 8)							
Available for sale	-	-	-	-	-	142,880	142,880
Investments in joint ventures or associates (Note 12)	-	-	-	-	-	-	-
Investments in joint ventures or associates (Note 12)	-	-	-	-	-	2,480,886	2,480,886
Trading derivatives (Note 10)	149,705	-	-	-	-	-	149,705
Derivatives - hedge accounting (Note 10)	19,810	-	-	-	-	-	19,810
Non-current assets and disposal groups classified as held for sale (Note 11)	170,509	-	-	-	-	-	170,509
Tangible assets (Note 13)	983,315	-	-	-	-	-	983,315
Intangible assets (Note 14)	5,903	-	-	-	-	-	5,903
Tax assets (Note 26)	-	-	-	-	-	2,634,086	2,634,086
Other assets (Note 15)	282,183	-	-	-	-	-	282,183
Total at 31 December 2015	**2,081,845**	**1,617,837**	**994,697**	**3,143,600**	**16,145,256**	**23,014,570**	**46,997,805**
LIABILITIES:							
Deposits from credit institutions and Central Banks (Note 16).	-	361,709	490,323	59,601	6,038,239	25,570	6,975,442
Deposits from customers (Note 17)	15,243,378	1,829,615	3,105,661	9,223,455	2,429,146	2,048,737	33,879,992
Debt securities issued (Note 18)	-	-	-	244,860	818,678	1,100	1,064,638
Other financial liabilities (Note 20)	111,917	-	-	-	-	-	111,917
Trading derivatives (Note 10)	132,099	-	-	-	-	-	132,099
Derivatives - hedge accounting (Note 10)	77,296	-	-	-	-	-	77,296
Provisions (Note 21)	483,665	-	-	-	-	-	483,665
Other liabilities and tax liabilities (Notes 22 and 26)	134,798	94,062	8,259	2,781	1,011	-	240,911
Equity (Notes 23, 24 and 25)	-	-	-	-	-	4,031,845	4,031,845
Total at 31 December 2015	**16,183,153**	**2,285,386**	**3,604,243**	**9,530,697**	**9,287,074**	**6,107,252**	**46,997,805**

These tables do not reflect the liquidity position of the Bank, inasmuch as demand accounts and deposits from customers, when the activity is typical of commercial banking, have been treated like any other liability payable on demand. Similarly, those assets forming part of the Bank's structure for which it is not possible to estimate their conversion date into liquid assets have been classified as "on demand". Considering this effect, the differences between assets and liabilities for each period fall within a reasonable range for the volumes of business managed.

42. Fair Value

The breakdown of the fair value of the Bank's financial assets and liabilities at 31 December 2016 and 2015, together with their corresponding carrying amount at those dates, is as follows:

At 31 December 2016

	Thousands of euros	
	Carrying amount	Fair Value
Assets:		
Cash, cash balances with central banks and other demand deposits and loans and advances to credit institutions (Notes 5 and 6)	797,795	797,795
Loans and advances to customers (Note 9)	27,941,196	30,418,757
Fixed income portfolio (Note 7)	9,351,987	9,351,987
Financial assets held for trading	-	-
Available for sale	*5,617,485*	*5,617,485*
Loans and receivables	*3,734,502*	*3,734,502*
Equity portfolio (Note 8)		
Available for sale	108,430	108,430
Non-current assets and disposal groups classified as held for sale (Note 11)	158,342	158,342
Investments in subsidiaries, joint ventures or associates (Note 12)	2,389,784	2,389,784
Derivatives held for trading (Note 10)	141,046	141,046
Derivatives - hedge accounting (Note 10)	57,919	57,919
Liabilities:		
Deposits from Central Banks and credit institutions (Note 16)	3,977,777	4,035,438
Deposits from customers (Note 17)	35,075,008	35,887,015
Debt securities issued (Note 18)	812,246	812,246
Derivatives held for trading (Note 10)	116,623	116,623
Derivatives - hedge accounting (Note 10)	149,478	149,478
Other financial liabilities (Note 20)	117,643	117,643

At 31 December 2015

	Thousands of euros	
	Carrying amount	Fair Value
Assets:		
Cash, cash balances with central banks and other demand deposits and loans and advances to credit institutions (Notes 5 and 6)	1,445,972	1,445,972
Loans and advances to customers (Note 9)	26,797,325	29,031,225
Fixed income portfolio (Note 7)	11,885,231	11,885,231
Financial assets held for trading	*97,100*	*97,100*
Available for sale	*7,867,731*	*7,867,731*
Loans and receivables	*3,920,400*	*3,920,400*
Equity portfolio (Note 8)		
Available for sale	142,880	142,880
Non-current assets and disposal groups classified as held for sale (Note 11)	170,509	170,509
Investments in subsidiaries, joint ventures or associates (Note 12)	2,480,886	2,480,886
Derivatives held for trading (Note 10)	149,705	149,705
Derivatives - hedge accounting (Note 10)	19,810	19,810
Liabilities:		
Deposits from Central Banks and credit institutions (Note 16)	6,975,442	7,057,994
Deposits from customers (Note 17)	33,879,992	34,732,577
Debt securities issued (Note 18)	1,064,638	1,064,638
Derivatives held for trading (Note 10)	132,099	132,099
Derivatives - hedge accounting (Note 10)	77,296	77,296
Other financial liabilities (Note 20)	111,917	111,917

The criteria used to determine the fair value of financial assets and liabilities are as follows:

- In general, the different financial assets and liabilities are measured by discounting future cash flows using the market interest rate curve.

- The fair value of financial assets at a fixed rate of interest is calculated by discounting future cash flows using the market interest rate curve through to maturity.

- The fair value of financial assets at a variable rate is calculated by discounting future cash flows through to the next interest rate change, which is when the outstanding balance is updated.

- The fair value of financial liabilities is calculated by discounting future cash flows using the market interest rate curve.

- On-demand liabilities with low returns (savings and current accounts in Euros), included under "Deposits from customers", are not considered sensitive to interest rate changes, and are therefore treated in the same way as liabilities with no maturity.

- Unquoted equity instruments for which it has been possible to estimate their fair value are measured using generally accepted valuation techniques based on observable market data.

- The fair value of financial assets and financial liabilities quoted in official secondary markets has been estimated based on their respective quotations at the date of the financial statements.

- The fair value of over-the-counter (OTC) derivatives not quoted in active official markets and of unquoted debt securities has been estimated by applying generally accepted valuation techniques based on directly observable market data.

43. Residual Maturities of Transactions and Average Interest Rates

A breakdown, by maturity period, of the balances of certain headings of the balance sheet at 31 December 2016 and 2015, excluding valuation adjustments, as well as their annual average interest rates, is as follows:

At 31 December 2016

	Thousands of euros							
	Demand	Up to 1 Month	Between 1 and 3 Months	Between 3 and 12 Months	Between 1 and 5 Years	More than 5 Years	Total	Average annual interest rate (1)
ASSETS:								
Cash and cash balances with Central Banks (Note 5)	379,813	-	-	-	-	-	379,813	0.00%
Deposits in credit institutions and other demand deposits (Notes 5 and 6)	-	204,003	23,717	189,736	13	-	417,469	0.85%
Loans and advances to customers (Note 9)	95,695	521,687	901,105	2,720,185	8,450,015	16,347,579	29,036,266	1.73%
Debt securities (Note 7)	-	-	-	70,294	3,274,205	5,970,455	9,314,954	0.49%
	475,508	725,690	924,822	2,980,215	11,724,233	22,318,034	39,148,502	
LIABILITIES:								
Deposits from Central Banks and credit institutions (at amortised cost) (Note 16)	-	676,068	718,323	46,235	2,494,796	27,722	3,963,144	0.20%
Deposits from customers (at amortised cost) (Note 17)	18,377,416	1,552,958	2,878,759	8,334,215	1,848,399	1,958,703	34,950,450	0.50%
Debt securities issued (at amortised cost) (Note 18)	-	-	15,000	-	753,832	-	768,832	4.24%
	18,377,416	2,224,294	3,620,877	8,393,950	5,079,566	1,986,323	39,682,426	

(1) *These average interest rates include the effects of the hedges arranged by the Bank.*

At 31 December 2015

	Thousands of euros							
	Demand	Up to 1 Month	Between 1 and 3 Months	Between 3 and 12 Months	Between 1 and 5 Years	More than 5 Years	Total	Average annual interest rate (1)
ASSETS:								
Cash and cash balances with Central Banks (Note 5)	429,839	-	-	-	-	-	429,839	0.00%
Deposits in credit institutions and other demand deposits (Notes 5 and 6)	-	622,089	-	10,324	383,705	-	1,016,118	0.35%
Loans and advances to customers (Note 9)	40,581	984,465	955,475	2,843,013	10,284,000	13,368,284	28,475,818	1.93%
Debt securities (Note 7)	-	16,255	37,294	275,998	5,240,149	6,307,847	11,877,543	0.68%
	470,420	**1,622,809**	**992,769**	**3,129,335**	**15,907,854**	**19,676,131**	**41,799,318**	
LIABILITIES:								
Deposits from Central Banks and credit institutions (at amortised cost) (Note 16)	-	374,229	507,308	61,666	5,997,947	26,456	6,967,606	0.37%
Deposits from customers (at amortised cost) (Note 17)	15,170,328	1,820,847	3,090,778	9,179,253	2,417,513	2,038,919	33,717,638	0.80%
Debt securities issued (at amortised cost) (Note 18)	-	-	-	244,860	768,223	1,100	1,014,183	3.28%
	15,170,328	**2,195,076**	**3,598,086**	**9,485,779**	**9,183,683**	**2,066,475**	**41,699,427**	

(1) These average interest rates include the effects of the hedges arranged by the Bank.

These tables do not reflect the liquidity position of the Bank, inasmuch as demand accounts and deposits from customers, whose stability is typical of commercial banking, have been treated like any other liability payable on demand. Considering this effect, the differences between assets and liabilities for each period fall within a reasonable range for the volumes of business managed. Further information on the Bank's liquidity management is given in Note 30.

44. Exposure to Credit Risk

44.1. Credit risk management objectives, policies and processes

Credit risk is the risk derived from the potential loss in respect of the full or partial breach of the debt repayment obligations of our customers or counterparties. In the financial system, credit risk management assumes major relevance in the sphere of global management of risks inherent in the financial activity, as it is closely interrelated with other risks such as operational risk, interest rate risk, market risk and reputational risk.

The general principles on which the Bank's risk management is based are as follows:

- Ensuring that the organisational structure associated with the risk function is appropriate, based on the following fundamental criteria:
  - Segregation of duties.
  - Collective decisions.
  - Decentralisation.

- Development, introduction and use of appropriate tools for acceptance, analysis, control and monitoring of each kind of risk related to the Bank's activity.

- The General Division of Corporate Control and Risks, together with its dependent structure, establishes the credit risk control framework, which is verified through the appropriate internal control. In addition, it oversees due compliance with the above-mentioned principles, particularly the segregation of duties, correct recognition of positions and their appropriate accounting treatment.

The communication of these basic principles to the Bank as a whole forms a key part of risk management. They are made general knowledge through the informative sessions held in the Bank at all levels, as well as through publication of the internal Standards and Circulars that implicitly implement these principles and the daily performance of the procedures and processes in place to ensure compliance therewith.

Effective management of credit risk requires independent decision-making with regard to commercial objectives. The establishment of separate divisions between the business areas and the risk areas entrusted with measuring, analysing, monitoring and disclosing information on risks provides the independence and autonomy needed to adequately control risks.

Organisational structure of the Bank's risks function

- The Bank's organisational structure aims to give an effective response to the most relevant strategic and operational aspects, such as:

- The strategy implemented by the Bank in the different markets in which it operates.

- The growing complexity of the Bank's activity and management.

- The need to boost and better guide commercial actions.

- Proper compliance with the Bank's strategic guidelines.

The Bank has been structured around three defence lines to enable a global risk management approach that involves the entire organisation. In this structure, the risk control function constitutes the second line of defence, responsible for monitoring the performance of all the business units (which make up the first line of defence), and is in turn supervised by the third line (Internal Audit).

This organisational structure reinforces the credit risk supervision and control areas, fostered by:

- The organisational trends of credit institutions as a result of the implications of the New Basel Capital Accord.

- The Bank's strategic planning within the framework of measures adopted in the integration plan and in compliance with the new capital requirements.

From a functional standpoint, the following, related activities correspond specifically to the area of risk management:

I. General Division of Corporate Control and Risks

The Bank has a General Division of Corporate Control and Risks (which reports directly to the CEO, thus guaranteeing the independence of Risk Control). The mission of this General Division is to foster a risk culture throughout the organisation, representing the Bank's second line of defence through the comprehensive management of risks (credit, market, liquidity, interest rate, operational, security and continuity, etc.), ensuring the Bank’s solvency and strength in accordance with the risk profile defined by the governing bodies, and leading the Bank towards best practices in risk culture.

In order to ensure adequate Credit Risk Control, this General Division includes a Comprehensive Risk Management Area, which comprises the Capital and Solvency, Risk Policies and Regulations, Credit Risk Control, Models and RAROC, Market Risk, Interest Rate and Liquidity Risk and Operational and Reputational Risk Unit.

This unit, which is in charge of defining the policies and procedures for managing risks based on the target risk profile defined, reviews policies on an ongoing basis to bring them into line with legislation and the Bank's strategy. With a view to obtaining models for assessing the risk of all the Bank's portfolios, the Comprehensive Risk Management Area will plan the procurement of scoring and rating models for all the portfolios based on their representativeness and models for assessing the expected losses on portfolios.

In addition, this unit collects metrics for each operation and customer through the implementation of statistical models to minimise the possibility of future losses derived from non-payment when granting operations, thereby enabling it to create efficient systems for recovering debts and for tracking changes in the Bank's credit risk profile.

The Comprehensive Risk Management Area is in charge of optimising the return/risk ratio (using RAROC methodologies), allowing for more accurate price setting and a more efficient allocation of capital.

The Bank also has an enhanced control framework (over solvency) made up of specific units and positions that carry out this function, which establish internal control mechanisms and measures to avoid generating risks that are not in line with the Group's risk profile through the application of disaggregated scorecards and the identification of anomalies resulting from tampering.

The Comprehensive Risk Management Unit, operating within the General Division, is responsible for defining and proposing the Risk Appetite Framework (hereinafter RAF) for approval by the governing bodies of the Bank based on the strategies defined by them. Once the RAF has been defined, this unit prepares monitoring and control reports with the frequency required by the governing bodies,

The presentation of risk appetite reports by this division to the board of directors, following their prior review by the Comprehensive Risk Commission and the Comprehensive Risk Committee, is indispensable to the effectiveness of the RAF.

The reports are to be prepared and submitted on a monthly basis to the Comprehensive Risk Committee, and presented at least every quarter to the Comprehensive Risk Commission.

These reports must include at least the following characteristics:

i. Monitoring of the risk metrics defined in the RAF to compare the risk profile at any given time with the risk appetite, in order to be able to demonstrate any deviation with regard to what has been defined by the Bank and to propose the appropriate corrective measures.

ii. An additional breakdown (by portfolio, geographical area, product type, etc.) for those metrics in which changes, without going as far as to trigger any of the defined alerts, may enable the Bank to anticipate unexpected behaviour.

The Comprehensive Risk Management Area is the point of liaison for all risk-related issues (including the control, monitoring and supervision thereof and changes therein) with the Spanish National Securities Market Commission (CNMV), Banco de España, the European Central Bank, the European Banking Authority, ratings agencies and external auditors.

Finally, the General Division is also responsible for coordinating the preparation of the ICAAP and the ILAAP.

This General Division performs coordination tasks with the General Division of IT, Reporting, Processes and Operations, ensuring that the different automated systems and work procedures and credit risk management are aligned with the Bank's strategic approach in respect of this issue.

The main functions of the departments engaged in managing credit risk that operate within the Comprehensive Risk Management Division are defined below.

Risk Policy and Regulations

Within the Comprehensive Risk Management Area, this unit is responsible for defining risk management policies and procedures on the basis of the target risk profile. It also constantly reviews the policies to bring them into line with legislation and the Bank's strategy. The strategies and limit-setting policies (by sector, geographical area, customer, type of transaction and segment) and risk products to be commercialised are determined based on the risk profile defined by the Bank and the prevailing economic climate.

More specifically, this unit has the following fundamental functions:

- To recommend the approval of risk limits to the Comprehensive Risk Commission in accordance with the risk tolerance of the Bank, analysing any deviations - and their causes - with respect to the defined risk profile and proposing corrective measures.

- To ensure adequate control over the risk profile defined by the Bank through the setting of risk policies and the definition and issue of legislation regulating the management of all risks. All of these functions are carried out under the umbrella of the Comprehensive Risk Management Division.

- To coordinate the preparation of the ICAAP.

- To coordinate the proposal of the RAF and the Recovery Plan for their presentation by the General Manager of Corporate Control and Risks to the Comprehensive Risk Commission, following their prior submission to the Comprehensive Risk Committee, and to perform monitoring in this connection.

- To coordinate the negotiation, establishment, dissemination and monitoring of credit activity criteria and monitor these criteria in collaboration with the General Business Divisions.

– To develop all risk-related rules through standards and manuals.

– To safeguard the quality of new loans and receivables and of management, pursuant to the criteria established by the Bank for the outstanding portfolio, through participation on the Risk Committees.

– To liaise on risk-related issues – control, supervision and developments – with the Spanish National Securities Market Commission (CNMV), Bank of Spain, ratings agencies and external auditors.

– To cooperate in defining new products and ensure compliance with the Bank's risk policies.

– To review procedures, set up controls and identify needs in order to improve customer monitoring.

– To establish a uniform culture of risk management throughout the commercial network, disseminating and controlling the application of defined risk policies and the corresponding processes.

Control of Credit Risk, Models and RAROC

The Comprehensive Risk Management Area includes the Unit for Control of Credit Risk, Models and RAROC, responsible for the development and administration of credit risk management models and policies together with the dynamic assessment of portfolio risk through statistical modelling of the portfolio as a whole, and the construction and definition of an entire platform of information for the Bank that enables control and in-depth knowledge of the Bank’s situation vis-à-vis the credit risk level in different focal points of analysis.

The Unit for Control of Credit Risk, Models and RAROC collects metrics for each operation and customer through the implementation of statistical models to minimise the possibility of future losses due to payment default when granting operations, thereby enabling it to create efficient systems for recovering debts and for tracking changes in the Bank's credit risk profile.

This unit is responsible for planning, leading and supervising the Credit Risk Control activities to help ensure the solvency of the Bank by controlling its expected loss.

More specifically, this unit's remit is essentially as follows:

- To define the reporting and analytical systems that will enable the Bank to monitor credit risk on a global level (across the various areas: sector, product, business line) and issue alerts on performance, thereby allowing the necessary corrective measures to be defined.

- To manage the investigation, design, documentation, methodologies and/or models for the identification, measurement and monitoring of credit risk.

- To study and analyse any regulatory changes pertaining to credit risk and the techniques applicable to credit risk control, as well as the design and validation of and proposals for implementing credit risk models.

- To perform the calculation and maintenance of the methodologies for calculating the probability of default (PD), exposure at default (EAD) and loss given default (LGD).

- To establish, verify and control the discrimination and stability of credit rating models (Rating, Scoring), calibrating the models and keeping the target default rate at appropriate levels established by the Bank, monitoring their predictive capability.

- To monitor the positive predictive capability of the credit risk tools available at the Bank, compiling risk maps and transition matrices and, where appropriate, updating the pertinent algorithms.

- To apply credit risk policies based on automated risk qualification models and systems.

- To define the reporting and analytical systems that will enable the Bank to monitor credit risk on a global level (across the various areas: sector, product, business line) and issue alerts on performance, thereby allowing the necessary corrective measures to be defined.

- To define the methodology for determining the expected loss in those portfolios in which this calculation entails an automated, mass process, and to systematically monitor and update this amount. To assess and monitor the expected loss from the credit risk portfolio.

- To integrate RAROC indicators and tools and to perform RAROC analyses on portfolios.

Capital and Solvency

The Comprehensive Risk Control Area includes the Capital and Solvency Unit, under the auspices of the Comprehensive Risk Management Division, whose principal responsibility is to guarantee compliance with legislation regulating capital and solvency requirements (Regulation 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council (CRR/CRD IV), which entered into force on 1 January 2014). In this regard, there is a fundamental relationship with credit risk, which requires greater monitoring in terms of consumer credit, due to its relative weight.

This Area is responsible for ensuring compliance with Circular 3/2005, as it sets the parameters and introduces the engines for calculating capital requirements.

More specifically, this unit's remit is essentially as follows:

- To prepare the solvency scorecards for their subsequent presentation to the Comprehensive Risk Commission and the board of directors.

- To deliver the COREP statements regulatory reporting and to prepare the asset encumbrance disclosures.

- To monitor and control the capital position and capital requirements.

- Setting and implementation of capital requirements calculation engines.

- Preparation of Tier III (Information of Prudential Relevance) coordinating the necessary preparations for compliance therewith and preparation of Capital Planning for compliance with Tier II (Capital Adequacy Plan – ICAAP).

- To prepare the capital information for the Recovery Plan.

- To coordinate the regulatory stress test exercises established by the ECB.

II. General Credit Division

The Bank undertakes active management of risk throughout its entire lifespan. The risk, in this regard, is managed in several stages, which depend on the events that take place during the period in which the transactions are ongoing.

In the loans and receivables acceptance stage, this requires application of conservative criteria, seeking a reasonable balance between efficiency and efficacy through the decentralisation of decision-making, based on the delegation of powers and the assignment of responsibilities depending on the risk assumed, and with support from the management and control tools in place that enable this process to be controlled at all times in accordance with the established policies and regulations.

It has a particular impact during the applications analysis stage, clearly defining and delimiting the policies, circuits, processes and procedures applicable in each case, depending on the circumstances and characteristics of the application. In this regard, the Group must apply objective and uniform criteria that minimise the number of transactions approved outside of the established channels and increase their traceability.

Assessment of the capacity to generate sufficient cash flows from the borrowers to meet the commitments undertaken is the fundamental criterion in making decisions about the transactions.

In the monitoring stage, the primary objective of the Bank is the early detection of situations where the Customers/Groups are at risk of default, to enable specific action plans to be exercised to prevent this from occurring.

This General Division has support from the Risk Acceptance and Analysis, Credit Products and Credit Monitoring Areas in order to carry out its mission.

Credit Risk Acceptance

The Risk Acceptance Unit is responsible for managing the risk analysis process through to arrangement, ensuring the quality of the assets together with the business units and the risk control and monitoring units, within the framework of the Bank’s risk policies.

Credit risk management falls fundamentally to this Area, which directly supervises the risk analysts and whose job is to analyse, review and report on transactions before they are approved, channelling proposals to the different approval committees, in accordance with their powers of authorisation.

Credit Risk Monitoring

This unit assumes responsibility for establishing monitoring procedures, systems and indicators that point us towards the Bank's risk profile, and for applying the monitoring policies in place, as well as systems for the management of internal and external alerts that help us make decisions about risk portfolios and customers with a view to improving the quality of assets, in close collaboration with the Network.

Expert ratings of the main risks are carried out through Credit Monitoring, which helps to define an optimum portfolio, monitoring risks/portfolios corresponding to the retail and portfolio segments. This unit is responsible for the definition and management of Economic Groups, exercising particular control over "groups" in special situations that could have an impact on the Bank's solvency. In addition, it analyses the expected loss from those customers for which this cannot be modelled, mainly large customers. It also carries out systematic control and updating of the expected loss from these customers.

This unit proposes the qualification and accounting write-off of singular borrowers based on the analysis and monitoring of their situation and expected loss, conduct and operations, to give a true and fair view of the portfolio quality. The unit is also responsible for adequately reporting and, where appropriate, making the necessary proposals to correct the decline in customer risk quality, in particular customers that have a specific expected loss, to ensure compliance with the action plans designed to overcome such losses.

Credit Products

Within the Credit Products Area, the Bank has a Guarantees Unit, forming part of the Loans Back Office Unit, whose main job is to verify the consistency of the collateral associated with the assets by validating the appraisals, thereby minimising the possibility of errors in asset measurement, through the automation of processes. In addition to the Loans Back Office Unit, the Entity has a Validation and Arrangement Unit, which strives to ensure the correct instrumentation of the asset files.

This unit also has to keep the value of collateral updated, in accordance with the Bank's internal policy.

III. General Division of Business in Spain

This General Division is responsible for the process of generating loans and receivables within the Retail Banking Commercial Network, within Corporate and Specialty Banking and from Institutional Banking customers.

IV. General Division of Singular Asset Development

This General Division is responsible for providing support in the management of loan assets with significant weaknesses, and its main activity centres on divestitures to redirect the liquidity obtained towards new investments.

The Recoveries Unit is a major part of this General Division. The recovery stage of impaired assets is an important area of action within this economic framework. Special focus is therefore placed on the reorganisation of these assets, as well as on driving actions that enable the effective loss to be minimised and that facilitate the recovery of these kinds of assets. In addition to recovering the individual impaired assets, the unit also analyses reorganisation alternatives for the balance sheet that include en bloc sales of assets from some segments of the portfolio.

Recoveries

The remit of the Recoveries Unit is as follows:

- To optimise coordination of all agents involved in the recovery.

- To assign resources and give priority to recovery actions based on the needs and forecasts prevailing at any given time.

- To take decisions in any significant recovery procedure and set criteria for the recovery process.

- To monitor and oversee the recovery targets set for the different recovery agents of this area.

- To revitalise the recovery process in all areas, focusing particularly on the most sensitive sectors/segments.

- To exercise judgement in identifying contracts suitable for portfolio sales, repurchases of securitised assets for refinancing, dations in payment, etc.

- To put forward a definitive risk resolution (collection, refinancing, purchase or enforcement).

V. General Division of Capital Markets, Management and Distribution

This General Division is responsible for operations management in the Group's wholesale markets, taking responsibility with regard to acceptance and administration of Treasury transactions and variable income and fixed income portfolios, which have to be approved by the corresponding joint committees and bodies.

VI. General Division of International Business

This General Division is in charge of generating loans and receivables in the International Commercial Network, which includes representative branches abroad.

VII. General Division of IT, Reporting, Processes and Operations

This General Division is responsible for the architecture of the processes and technology supporting the Bank's operations, and is therefore in charge of implementing the necessary controls to ensure that transactions are arranged in accordance with the criteria approved by the corresponding committees.

Credit Risk Acceptance Circuit

The acceptance process is based on the credit risk circuit, which specifies the analysis procedures and policies, as well as the different hierarchical levels with powers and authority to approve transactions.

In accordance with the foregoing, once the strategy has been defined and the corresponding risk policies have been developed within the General Division of Corporate Control and Risks, a formal risk authorisation system is established in the different business divisions, whereby delegated powers are assigned to the different hierarchical levels of the organisation for the authorisation of transactions, which vary depending on the type, the guarantees and the amount of the risk.

The Bank has a collective decision-making system in place which is based on a hierarchical structure of approval in each of the different business channels. Appropriate parallels between the committees are established in these channels.

The Commercial Division is structured into branches, broken down by category, followed by Area Divisions, Regional Divisions and Commercial Divisions, with the General Division at the top of the ladder. Each of these levels is subject to a certain limit on delegated powers for the assumption of risks, collectively approved by the risk committees.

This structure converges with a group of higher-level committees that are centralised for the organisation as a whole.

The Bank's Board of Directors approves a Risk Appetite Framework and a Credit Risk Policy Manual, which delimits the area of action relating to credit risk, pursuant to the Bank's strategy and the desired risk profile.

The authorisation framework, whereby powers are distributed by amounts, products and guarantees, while considering the exceptions and standards that regulate their use, is shown in the General Authorisations Standard.

Based on this structure, when considering a new transaction the Bank verifies whether it can be approved at the organisational level at which it originated or whether it must be reported and forwarded to a higher level. In general, all transactions are approved by the committee at the required level of authorisation. A similar procedure is followed in the other areas of business.

For the purpose of guaranteeing objectivity in credit risk analysis and application of the associated policies, the areas and departments in charge of the loans and receivables risk analysis function are independent from the commercial function. The Risk Acceptance and Analysis Unit forms part of the General Credit Division.

Its main function is management of the risk acceptance process through to arrangement, ensuring the quality of assets, maintaining efficient response mechanisms and coordination with the Business Units, the Corporate Control and Risks Unit and the Credit Monitoring Unit (which reports to the General. Credit Division), within the framework of the Bank's policies This unit acts at all levels of authorisation, except those of minor relevance, in other words those delegated to branch level. Transactions that exceed the foregoing authorisation levels are submitted, in the last instance, to the Delegate Credit Committee.

The report corresponding to each transaction has a uniform structure which, in addition to the general considerations of the transaction analysis, establishes a risk assessment based on the opinion of the expert and from different perspectives (commercial risk, economic-financial risk, legal risk, asset risk, etc.), to facilitate global assessment of the transaction and customer. This in turn determines, based on the risk policies established to this end, the recommended level of exposure and, where applicable, whether or not these have been tampered with.

The authorisation of transactions with employees falls to the Division of Employment Consultancy, Social Welfare and Prevention of Occupational Risks, provided the recipient of the loan is an individual. The opinion of the Risk Acceptance and Analysis Division may be requested for these purposes.

Details of the different committees involved in the credit risk analysis process are as follows:

- The board of directors is responsible for setting the Bank's general risk policy, as well as the Risk Appetite Framework.

- The Comprehensive Risk Commission is responsible for proposing the Bank's risk policy to the board of directors, and the board is responsible for approving this policy as part of its powers of administration and supervision. Furthermore, the Commission verifies that the Bank's actions are consistent with the risk tolerance level and, in this regard, sets global limits on the main risk exposures, monitoring these risks through systematic reviews and dealing with those transactions that exceed the powers delegated to lower levels. It is also responsible for the global control over credit risk and the coordination and monitoring of associated policies and functions, as well as the definition of the capital, credit, operational, market and credit risk policies.

- The Delegate Credit Committee holds powers corresponding to the board of directors in respect of the granting and monitoring of financing transactions, irrespective of their nature, making it the highest-level body that approves transactions entailing credit risk. In turn, this commission has delegated approval powers for certain transactions to lower-level risk committees on the basis of geographical location, business or risk type, all of which are defined in the risks corporate governance model, in accordance with the Bank's General Authorisations Standard.

- Central Committee. The functions of this committee are to assess and decide on the acceptance of credit transactions that exceed the remit of the regional committees, approving those it is eligible to authorise and passing any others on to a higher level if approval is required from the Delegate Credit Committee. In all cases, transaction approvals require a unanimous decision from all committee members, otherwise the transaction must be passed on to a higher level.

- Regional Committees, Area Committees and Risk Analysis Committee. The functions of these committees are to assess, decide on and approve the acceptance of credit transactions from the commercial network, approving those for which they hold the necessary powers or, where appropriate, referring them to a higher level if approval is required from the aforementioned committees.

The Credit Risk Policy Manual sets out policies by market and segment to ensure, inter alia, the adequate diversification of the Bank's loan portfolio, pursuant to the Risk Appetite Framework defined by the Entity.

Recovery Circuit

The Bank's recovery process is governed by the principles of anticipation, objectivity and efficacy. The Bank has a uniform and objective process for managing the recovery of defaulted transactions. This process is adapted in accordance with the type of customer, the amount of the transaction, the associated collateral or the term.

The recovery process is based on a circuit which specifies the recovery procedures and policies, as well as the different hierarchical levels with powers and authorisation to approve transactions.

The Bank has a collective decision-making system in place which is based on a hierarchical structure of approval in each of the different business channels. Appropriate parallels between the committees are established in these channels. This structure converges with a group of higher-level committees that are centralised for the organisation as a whole.

Transactions with forbearance measures follow the Bank's usual acceptance circuits based on process of customer profiling (General Authorisations Standard).

The recovery process is divided into four stages, broken down according to the actions to be carried out and the agents that take part in each stage:

– Recovery Support and Management (defaults from 0 to 120 days):

    - The Bank attempts to make direct contact with debtors, looking for the best solution to enable them to settle their debts with a view to normalising the defaulted balances. This collection management is carried out until day 60 Business.

    - From day 60 onwards, recovery is carried out by specialised recovery agents. Efforts are made to prevent the debtor from reaching this 60-day point and, given the urgency of the situation, to bring forward the definitive resolution of the risk (enforcement/purchase) where necessary. The parties involved in this stage are as follows: Business, Recoveries Department and External Agents.

– Pre-litigation management (more than 120 days), the stage in which the Group attempts to procure an out-of-court settlement and optimise the processing formalities of the portfolio subject to legal proceedings.

– Legal management, for the purpose of optimising legal procedures and minimising the financial impact stemming from non-performing loans. The cases may be passed on to the legal department if this is in the Group's interest, or once the deadlines established for out-of-court management have elapsed.

Credit Risk Monitoring

Monitoring is centralised in the General Credit Division, which falls within the Credit Monitoring Area, which is engaged exclusively in monitoring tasks, performing them systematically through the control and issue of information, the performance of actions and periodic monitoring committee meetings.

In addition to being originated systematically (i.e. through the establishment of review schedules and plans), monitoring may also be originated symptomatically through alerts to the branch or manager, which can help to detect the possible impairment of customer balances, and of the risk transactions/collateral or the environment/market in which they operate.

The Bank has systems in place to monitor credit transactions, whereby changes in the borrower's credit rating with respect to the transaction approval date can be detected, enabling measures to be proposed to mitigate the impact of a possible default.

The main purpose of the Bank's credit risk monitoring will be to enhance its capacity to anticipate possible incidents with customers and mitigate these as expeditiously as possible.

The process of monitoring transactions and customers is based on systems that provide advance warning of potentially irregular situations, as well as the work carried out by technical monitoring units that are closer to business management.

The monitoring methodology is essentially based on the periodic analysis of information on customers and transactions, compiled considering predetermined variables, detecting any anomalous deviations in their behaviour.

44.2. Maximum risk exposure level

The following table shows the maximum credit risk exposure level assumed by the Bank at 31 December 2016 and 2015 for each type of financial instrument, without deducting collateral or any other credit enhancements received to ensure repayment by borrowers:

At 31 December 2016

	Thousands of euros							
	Asset balances							
	Financial assets designated at fair value through profit or loss							
Type of instrument	Financial assets held for trading	Other	Available-for-sale financial assets	Loans and receivables and other demand deposits	Held-to-maturity investments	Derivatives - hedge accounting	Off-balance sheet items	Total
Debt instruments:								
Deposits in credit institutions	-	-	-	417,982	-	-	-	417,982
Marketable securities	-	-	5,617,485	3,734,502	-	57,919	-	9,409,906
Loans and advances to customers	-	-	-	27,941,196	-	-	-	27,941,196
Total debt instruments	**-**	**-**	**5,617,485**	**32,093,680**	**-**	**57,919**	**-**	**37,769,084**
Guarantees extended:								
Financial guarantees	-	-	-	-	-	-	175,884	175,884
Other guarantees extended	-	-	-	-	-	-	1,022,247	1,022,247
Total guarantees extended	**-**	**-**	**-**	**-**	**-**	**-**	**1,198,131**	**1,198,131**
MAXIMUM CREDIT RISK EXPOSURE LEVEL	-	-	5,617,485	32,093,680	-	57,919	1,198,131	38,967,215

At 31 December 2015

Type of instrument	Thousands of euros							
	Asset balances						Off-balance sheet items	Total
	Financial assets designated at fair value through profit or loss		Available-for-sale financial assets	Loans and receivables and other demand deposits	Held-to-maturity investments	Derivatives - hedge accounting		
	Financial assets held for trading	Other						
Debt instruments:								
Deposits in credit institutions	-	-	-	1,016,133	-	-	-	1,016,133
Marketable securities	97,100	-	7,867,731	3,920,400	-	19,810	-	11,905,041
Loans and advances to customers	-	-	-	26,797,325	-	-	-	26,797,325
Total debt instruments	**97,100**	**-**	**7,867,731**	**31,733,858**	**-**	**19,810**	**-**	**39,718,499**
Guarantees extended:								
Financial guarantees	-	-	-	-	-	-	137,585	137,585
Other guarantees extended	-	-	-	-	-	-	1,041,942	1,041,942
Total guarantees extended	**-**	**-**	**-**	**-**	**-**	**-**	**1,179,527**	**1,179,527**
MAXIMUM CREDIT RISK EXPOSURE LEVEL	**97,100**	**-**	**7,867,731**	**31,733,858**	**-**	**19,810**	**1,179,527**	**40,898,026**

The following should be taken into account with respect to the information shown in the above table:

- "Debt instruments" recognised under assets in the balance sheet are reflected at their carrying amount, and therefore the impairment losses recognised thereon are included in the "Asset balances" column.

- Guarantees extended are stated at the maximum amount guaranteed by the Bank. In general, most of these balances are estimated to reach maturity without requiring any actual financing by the Bank. These balances are stated net of allowances and provisions recognised to cover the associated credit risk.

44.3. Collateral and other credit enhancements

Transaction-granting is based on the payment capacity of the applicants, although, as an essential tool in the management of credit risk, the Bank ensures that financial assets acquired or arranged are secured by collateral or other credit enhancements aside from the debtor's own personal guarantee. The Bank's policies for analysing and selecting risk specify the collateral or other credit enhancements that a transaction requires – based on the different characteristics of the transactions such as the purpose of the risk, counterparty, duration, capital consumption, etc. – in addition to the debtor's own personal guarantee, to proceed with the arrangement.

The measurement of collateral is carried out based on the nature of the collateral received. In general, collateral in the form of properties is measured at appraisal value at the contract date as calculated by independent experts in accordance with rules established by the Bank of Spain. In general, and in accordance with the appraisal regulations under Ministerial Order ECO/805/2003, an updated appraisal is required in the event of new mortgage loans, novations/refinancing/restructuring with forbearance measures, purchases of assets or dations in payment, or the foreclosure of assets. Securities listed on active markets given as collateral are measured at market price, adjusted by a percentage to cover any eventual fluctuations in market price that may adversely affect risk coverage; bank guarantees and similar collaterals are measured at the amount secured in these transactions. Credit derivatives and similar arrangements used for credit risk hedging are measured, for the purposes of determining the achieved coverage, at their nominal amount equivalent to the secured exposure; deposits pledged given as collateral are measured at the value thereof and, where expressed in foreign currencies, converted at the exchange rate prevailing at each measurement date. The breakdown of the maximum credit risk exposure of each type of financial instrument secured by each of the main types of collateral and other credit enhancements available to the Bank at 31 December 2016 and 2015 is as follows:

At 31 December 2016

	Thousands of euros							
	Secured by real estate collateral	Secured by money deposits	Other collateral	Guaranteed by financial institutions	Guaranteed by other A-rated entities	Guaranteed by other entities	Hedged with credit derivatives	Total
Deposits in credit institutions	-	9,383	-	-	-	-	-	9,383
Marketable securities	-	-	-	-	-	3,991,009	-	3,991,009
Loans and advances to customers	14,893,267	845,186	145,728	22,309	-	131,525	-	16,038,015
Debt instruments	14,893,267	854,569	145,728	22,309	-	4,122,534	-	20,038,407
Guarantees extended	-	-	-	-	-	-	-	-
Other exposures	-	9,358	-	-	-	-	-	9,358
Total covered amount	14,893,267	863,927	145,728	22,309	-	4,122,534	-	20,047,765

At 31 December 2015

	Thousands of euros							
	Secured by real estate collateral	Secured by money deposits	Other collateral	Guaranteed by financial institutions	Guaranteed by other A-rated entities	Guaranteed by other entities	Hedged with credit derivatives	Total
Deposits in credit institutions	-	352	-	-	-	-	-	352
Marketable securities	-	-	-	-	-	4,043,859	-	4,043,859
Loans and advances to customers	15,185,906	621,190	72,990	20,589	-	386,481	-	16,287,156
Debt instruments	15,185,906	621,542	72,990	20,589	-	4,430,340	-	20,331,367
Guarantees extended	-	-	-	-	-	-	-	-
Other exposures	-	201	-	-	-	-	-	201
Total covered amount	15,185,906	621,743	72,990	20,589	-	4,430,340	-	20,331,568

45. Interest Rate Exposure

45.1. Interest rate risk management objectives, policies and processes

Interest rate risk is the risk that fluctuations in market interest rates could affect annual profits and net worth, due to time lags between maturity periods and the repricing of the Bank's assets and liabilities.

This risk is inseparable from the banking business given that one of the fundamental characteristics of credit institutions is that a large part of the basic products with which they operate is subject to the rigours of interest rates. However, excessive exposure to this risk could jeopardise the stability of the margin and the value of an entity.

The interest rate risk associated with financial instruments affects the Bank in two ways:

- Through the effect of interest rate variations on the statement of profit or loss, as the Bank's assets and liabilities may include certain financial instruments that accrue interest at fixed or renegotiable rates, and therefore any variations therein would have an asymmetrical effect on the different instruments ("interest rate gap"). In the case of floating interest rate operations, the risk materialises when interest rates are recalculated.

- The Bank is exposed to market interest rate risk as a result of holding assets, the fair value of which varies due to changes in these market interest rates, affecting the Bank's equity and profits.

The objectives in respect of interest rate risk management are approved at strategic level by the board of directors of the Bank while the procedures for achieving and controlling those objectives are defined by the Bank's Assets and Liabilities Committee.

The Bank's aim is to measure and manage interest rate risk, endeavouring to guarantee a net interest margin and a stable and growing economic value of equity, in accordance with the Entity's risk appetite. Consequently, the Bank's policies are targeted at maintaining reduced exposure to interest rate risk, whereby corrections to market interest rate curves do not have a significant direct effect on the activity and consolidated profits of the Bank, maintaining the balance at optimum levels of return in all circumstances.

Sensitivity measurement techniques and scenario analyses are used to analyse, measure and control the interest rate risk assumed by the Bank and adequate limits are established to avoid exposure to risks at levels that could significantly affect the Bank. These procedures and analysis techniques are revised when necessary to ensure adequate performance. Furthermore, all transactions that are individually significant for the Bank are analysed both individually and jointly with the Bank's other transactions to ensure control over interest rate risk, as well as other market risks to which the Bank is exposed through their issue or acquisition.

The Bank uses hedges for the individual management of the interest rate risk of all significant financial instruments that may be exposed to equally significant interest rate risks, thus reducing this type of risk to practically zero.

The table below shows the Bank's level of exposure to interest rate risk at 31 December 2016 and 2015 for each significant currency, indicating the carrying amount of the financial assets and liabilities affected by this risk, which are classified in accordance with the estimated period until the interest rate repricing date (for those transactions that contain this characteristic, based on their contractual terms) or maturity (for those transactions with a fixed rate of interest), and the carrying amount of instruments hedged in interest rate risk hedging transactions.

At 31 December 2016

	Millions of euros							
	Term to Review of effective interest rate or to maturity							
	Up to 1 Month	Between 1 and 3 Months	Between 3 and 1 Year	Between 1 and 2 Years	Between 2 and 3 Years	Between 3 and 4 Years	Between 4 and 5 Years	More than 5 Years
Expressed in euro:								
Financial assets								
With floating interest rate	3,978	8,030	13,201	33	25	18	12	5
With fixed interest rate	584	1,704	453	545	443	1,316	1,296	2,755
	4,562	**9,734**	**13,654**	**578**	**468**	**1,334**	**1,308**	**2,760**
Financial Liabilities								
With floating interest rate	175	546	181	-	-	-	-	-
With fixed interest rate	5,416	3,749	8,439	1,677	2,744	3,434	10,176	1,936
	5,591	**4,295**	**8,620**	**1,677**	**2,744**	**3,434**	**10,176**	**1,936**
Expressed in foreign currencies:								
Financial assets								
With floating interest rate	333	223	208	-	-	-	8	-
With fixed interest rate	15	35	219	6	18	5	19	45
	348	**258**	**427**	**6**	**18**	**5**	**27**	**45**
Financial Liabilities								
With floating interest rate	1	-	-	-	-	-	-	-
With fixed interest rate	149	156	549	160	34	24	143	-
	150	**156**	**549**	**160**	**34**	**24**	**143**	**-**
Total Assets	**4,910**	**9,992**	**14,081**	**584**	**486**	**1,339**	**1,335**	**2,805**
Total Liabilities	**5,741**	**4,451**	**9,169**	**1,837**	**2,778**	**3,458**	**10,319**	**1,936**

At 31 December 2015

	Millions of euros							
	Term to Review of effective interest rate or to maturity							
	Up to 1 Month	Between 1 and 3 Months	Between 3 and 1 Year	Between 1 and 2 Years	Between 2 and 3 Years	Between 3 and 4 Years	Between 4 and 5 Years	More than 5 Years
Expressed in euro:								
Financial assets								
With floating interest rate	3,059	9,399	13,388	55	8	13	7	13
With fixed interest rate	1,217	481	550	606	1,054	1,788	1,782	2,491
	4,276	**9,880**	**13,938**	**661**	**1,062**	**1,801**	**1,789**	**2,504**
Financial Liabilities								
With floating interest rate	391	316	139	-	-	-	-	-
With fixed interest rate	4,851	3,584	9,754	2,026	8,022	2,012	7,285	2,028
	5,242	**3,900**	**9,893**	**2,026**	**8,022**	**2,012**	**7,285**	**2,028**
Expressed in foreign currencies:								
Financial assets								
With floating interest rate	86	160	429	7	-	-	-	14
With fixed interest rate	91	19	28	222	4	2	3	4
	177	**179**	**457**	**229**	**4**	**2**	**3**	**18**
Financial Liabilities								
With fixed interest rate	181	178	653	54	28	21	121	-
	181	**178**	**653**	**54**	**28**	**21**	**121**	**-**
Total Assets	**4,453**	**10,059**	**14,395**	**890**	**1,066**	**1,803**	**1,792**	**2,522**
Total Liabilities	**5,423**	**4,078**	**10,546**	**2,080**	**8,050**	**2,033**	**7,406**	**2,028**

45.2 Interest rate risk sensitivity analysis

Information included in this section on the sensitivity to interest rate risk of statement of profit and loss and the economic value of the Bank's capital has been prepared in accordance with the following methods and assumptions:

- The validity of the analyses provided should be considered within the context of the current situation of the domestic and international financial markets.

- Therefore, although prevailing legislation requires that these analyses be performed based on changes that could be considered reasonably possible in each risk variable, the current situation of the national and international financial markets makes it difficult to assign probabilities to the different changes in the market variables, which include interest rate risk, to be able to determine whether certain changes are reasonably possible compared to others. Consequently, the analysis provided below has been performed considering two standard scenarios, which are used in compliance with Spanish law: 1) that of a drop in market interest rates by 200 basis points with respect to the implicit rates at 31 December 2016, determined applying Banco de España criteria, with a floor of 0% for changes in market rates; 2) and that of a rise by 200 basis points with respect to the implicit rates at the same date.

- The analysis considers the performance of the implicit rates, projecting the balance sheet based on a scenario of balance and structure without changes.

- This analysis was performed based on a one-year period.

- As regards the impact on the statement of profit or loss and capital, the results of the analysis carried out show that this change would affect the "interest margin" (because of the effect on income of interest and similar amounts received and paid by the Bank) and the economic value of capital (for these purposes, the economic value of capital is calculated as the sum of the fair value of net assets and liabilities sensitive to interest rates and the carrying amount of assets and liabilities not sensitive to interest rates). This is in accordance with the regulatory criteria set out by the Bank of Spain on the determination and control of capital adequacy requirements. The impacts are shown before tax in all cases.

The first objective pursued in risk management is to maintain the net interest margin by quantifying in the short term (up to 1 year) the changes expected in light of interest rate variations. We therefore measure the sensitivity of the future net interest margin from a dynamic perspective. Thus, in addition to recognising the positions at the end of each month, we include the new business relating to a scenario of balance and structure without changes. Accordingly, at 31 December 2016 net interest margin's sensitivity to a parallel and sudden fluctuation of interest rates by 200 basis points amounts to €88 million for an interest rate increase and €-4.3 million for an interest rate reduction.

The second aim focuses on protecting the economic value of capital, which measures the impact of variations in interest rates on the present value of the Bank's flows from the balance sheet positions with a long-term time frame. The fixed limits are regularly reviewed, enabling alerts to be raised regarding unwanted exposures that could significantly affect the Entity. The economic value of capital is calculated as the difference between the present value of all of the Bank's flows from asset positions and liability positions, taking into consideration the current interest rate curve. Accordingly, the change in the economic value of own resources upon a reduction in interest rates by 200 b.p. results in an increase of circa 4.46% in economic value. In the event of a 200 b.p. increase, the economic value would increase by 13.37%.

Applying the methods and assumptions referred to in the previous paragraphs, the estimated impact of an immediate increase/decrease of 200 basis points in all Euribor terms with respect to the figures at 31 December 2016 and 2015 is as follows:

	Thousands of euros			
	2016		2015	
	Impact on Net Interest Income	Impact on the Economic Value of Capital	Impact on Net Interest Income	Impact on the Economic Value of Capital
200 b.p. increase of Euribor	88,416	487,136	116,936	578,731
200 b.p. reduction of Euribor	(4,342)	162,445	(5,571)	213,013

46. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Bank has implemented an operational risk management framework guided by the appropriate regulations, the recommendations issued by the BIS and by national and European regulators. The framework incorporates sector best practices proposed in the CERO (Spanish Operational Risk Consortium) group, in line with a profile of low tolerance towards operational risk.

The Entity currently calculates regulatory capital by applying the basic indicator approach and is analysing the impact for the potential adoption of the new SMA indicator (*Standardised Measurement Approach*). Initiatives remain ongoing aimed at promoting the organisation's involvement in the different stages of operational risk management; furthering the development of a reporting system targeted not only at the lines of business and support areas, but also at senior management; continuing to feed the loss database and automating data capture, specifically data related to high-frequency and low-impact events; and having a properly documented management system.

The risk management model implemented in the Bank is based on the three lines of defence model:

(i) own management of the lines of business,

(ii) the independent risks unit and

(iii) an independent review.

- As a first line of defence: the functions that own and manage the risks. The Divisions of the business and support areas are the owners of the risks and they manage them. They are also responsible for introducing corrective measures to redress any process or control deficiencies. Using a cascaded structure, the middle managers design and implement detailed procedures that serve as controls, and supervise the execution of those procedures by the employees.
- The second line of defence: the functions that supervise the risks – risk management and compliance functions. This facilitates the introduction of effective risk management practices by the Divisions of the business and support areas and helps the risk owners to define the target risk exposure and the appropriate presentation of risk-related information throughout the organisation.
- The third line of defence: the functions that provide an independent review: Internal Audit, which reviews the effectiveness of corporate governance, risk management and internal control.

The three lines of control are implemented in a coordinated way, and fluid communication channels between all three are in place. This is an essential element in favouring an operational risk culture that meets the demands of the Bank's operational risk management.

Management structure

The Bank follows a decentralised model, where final responsibility for operational risk management lies with the business and support units. The following control bodies and general lines of responsibility have been established to govern this process:

Board of Directors

- Approve the operational risk management policy applicable to the activity of the Bank in addition to its implementing regulations, as reflected in the Operational Risk Management Functions and Policies Manual.
- Form the committees required in the Bank for adequate management of operational risk, giving details of their members and corresponding functions.
- Appoint the representatives or points of contact with the Bank's supervisory bodies in accordance with prevailing legislation.

Comprehensive Risk Commission

- Ensure that the Bank adopts an Operational Risk Management Policy that is suited to its activity based on the risk profile established in the Risk Appetite Framework.
- Ensure that adequate procedures and measures are established for the proper implementation of the guidelines set out in the Operational Risk Policies.
- Promote a culture of operational risk management in the Bank.
- Periodically monitor the management of operational risk based on the reports received from the Operational Risk Unit and inform the Steering Committee of any actions carried out.
- Monitor the level of compliance with the Operational Risk Management Policies Manual.
- Approve the procedures and systems for transferring risk (insurance, guarantees, outsourcing, etc.) with a view to mitigating operational risks based on the Bank's risk profile, at the request of the Operational Risk Unit, which is part of the General Division of Corporate Control and Risks.

Operational and Reputational Risk Unit

The Operational and Reputational Risk Unit reports to the Comprehensive Risk Management Division, which is in turn part of the General Division of Corporate Control and Risks, and has the following main functions:

- To promote operational risk management in the different areas, encouraging the identification of these risks, their allocation for monitoring, formal controls, the generation of indicators, drawing up of mitigation plans, periodic reviews and action to be taken in the event of further losses or significant risks.
- To provide the areas and units with the methodologies, tools and procedures necessary to manage their operational risks.
- To ensure that the operational losses incurred by the Bank are properly and fully recorded.
- To design an operational risk reporting system that guarantees the quality and consistency of the reports, adapting them to the needs of the different recipients.
- To provide information on operational risk to be sent to regulators, supervisors and external entities.

- To roll out a culture of ongoing improvement that is sensitive to operational risk:

- Training and support to units.
- Lines of collaboration with different units.
- Measures to encourage management best practice.

Business Units

Tasked with the following functions:

- To manage the unit's operational risks and, more specifically, to identify, assess, control, monitor, analyse and mitigate the operational risks over which it has the capacity to act.
- To record and report on the operational losses incurred in the performance of its activity.
- To take part in the definition and introduction of risk indicators that can be used as alerts for operational risk management in its area.
- To study, define, prioritise and finance the operational risk mitigation plans under its management.
- To report to the Operational Risk Unit on the findings obtained in the performance of its functions.
- To maintain and test business continuity plans managed in the unit.

As mentioned previously, in the first line of defence the business/support units are responsible for the processes they manage and the associated risks. They must therefore possess an in-depth knowledge of the processes they carry out, from start to finish, understanding the needs and expectations of customers, taking responsibility for their performance and for the proper management of risks.

To strengthen this risk management model, ABANCA has defined a functional structure that will be gradually rolled out and which features two key figures with risk management responsibilities in each business and support area: i) the Comprehensive Risk Delegate, who is the fundamental key figure in charge of executing and monitoring the operational risk management cycle in the processes carried out in his/her area of responsibility, and ii) the Master Comprehensive Risk Delegate, who coordinates the activities of the Comprehensive Risk Delegate and ensures that the risk management methodology is duly applied in his/her areas of competence.

Those in charge of risk management in the different areas are assisted by a Comprehensive Risk Consultant, a professional from the Comprehensive Risk Management Area who provides advice and support in handling resources and tools for risk management at the organisation.

Operational Risk Management Policy

The Operational Risk Management System that embodies this model is structured around a set of processes supported by specialised methodologies and tools.

The basic processes that make up the system are as follows:

- Identification of latent operational risks and the controls applied.

  The purpose of this process is to prepare and maintain a global map of risks and controls that records all material exposures to operational risk.

- Assessment of operational risks.

  The purpose of this process is the regular assessment of inherent risk and residual risk by the business or support units.

- Recording of operational risk events.

  The Entity has a Loss Database (LDB) that contains the events logged at the originating entities since 2004.

The loss database is fed through a combination of manual and automatic processes that use accounting records and information provided by the business and support units as sources of information.

- Analysis of the causes that lead to the events occurred within the Entity and of the outcome of the risk maps and controls prepared by the Bank.

  The events logged in the LDB are subject to regular analyses and these are supplemented with benchmarking processes.

- Mitigation of operational risk.

  As a result of the foregoing process, and depending on the outcome, proposals for improvement and action plans are established to reduce the residual risk and the materialisation of losses.

- Creation of reporting systems based on operational risk that enable basic management information to be reported and the use of corporate communication channels to disseminate this information within the Entity.

The Operational Risk Committee was formed in 2016. This committee, which comprises the directors of the main areas tasked with managing and controlling operational risk, is responsible for periodically monitoring the operational risk situation at the Entity and designing and promoting risk mitigation measures.

The Bank continues to push forward in implementing management through processes and promoting a culture of "Operational Excellence", which is achieved when the service offered is perceived as being of very high quality, presents high levels of efficiency, and all existing risks are under control.

"Operational Excellence" encompasses four management dimensions for those in charge of the processes:

- Process dimension: for the improvement (quality and efficiency) of the process.

- Risk dimension: for the control and monitoring of the process risks.

- Initiatives dimension: to obtain the expected results from the initiatives that have an impact on process performance.

- Human resources dimension: to determine the level of resources required to carry out the processes.

Each process analysed using this methodology is spearheaded by a Process Manager who is responsible for carrying out the actions required in each of the aforementioned management dimensions.

Operational Risk Event Type

To classify operational risk events, ABANCA uses the provisions of Regulation (EU) No 575/2013 as its benchmark, along with the definitions set out in Bank of Spain Circular 3/2008 on the determination and control of minimum capital requirements. Furthermore, for the purpose of establishing uniform and comparable criteria, the Bank verifies the categories of operational risk events against the criteria proposed in the CERO (Spanish Operational Risk Consortium) group.

All loss events are organised using a decision tree up to the third level of detail, assigning the type that best fits the originating cause of the operational event.

Within the framework of the ongoing improvement processes and the processes to adapt to the new regulations, the new risk categories suggested by the regulator, such as conduct, legal, ICT and other risks, are progressively incorporated.

Mitigation and control techniques

As a result of the identification and assessment of the risks that affect the areas, and based on the findings obtained, proposals for improving the existing controls that mitigate the risk are drawn up jointly with the Operational Risk Managers.

The degree of implementation of improvements/action plans is subject to regular review, and details are requested from those in charge of executing these measures. Generally speaking, the proposed improvements refer to:

- The redesign of processes, products or systems associated with a specific operational risk.
- The application of new controls or the modification of those already in place.
- The transfer of the risk through insurance policies that cover the hypothetical losses.
- The development of contingency plans.

Tools

Software tools have been developed for efficient management of operational risk and to comply with the requirements laid down in solvency regulations, the risk management recommendations issued by national and international organisations, and sector best practices.

These tools take on a two-fold approach – quantitative and qualitative – depending on the nature of the information they use:

I. The qualitative analysis uses tools for the identification, measurement and monitoring of operational risk. The aim is to be able to detect exposure to the risk and to mitigate it in advance, so that it does not manifest itself in an adverse way for the Bank.

The main aspects on which the quantitative assessment focuses are the analysis of critical business processes, identification of the inherent risks, the controls in place to mitigate these and the establishment of ongoing improvements to operating processes and the existing control structure.

II. As regards the quantitative analysis, this is mainly based on feeding an operational events database that we have developed ourselves. In this regard, the Bank is generating a historical database of operational risk events dating back to 2004, and this database is continually updated as information is received on losses and the recovery thereof, both through procedures carried out by the Bank itself as well as through the cover provided by the insurance policies taken out.

This information is useful in determining what gave rise to the losses so as to be able to act on this for the purpose of mitigating them, and also for comparing the consistency of the qualitative assessments made with the estimates of potential losses, in terms of both frequency and severity.

47. Exposure to Other Market Risks

The Bank does not have any speculative foreign currency positions. Furthermore, the Bank does not have any material non-speculative open (unhedged) positions denominated in foreign currency.

Moreover, pursuant to the defined limit for 2016 and 2015, the net position in foreign currency must not exceed 2% of eligible capital. This limit is approximately 0.11% in 2016 (0.7% in 2015).

The distribution of the carrying amount of the Bank's most significant financial assets (cash balances at central banks and other demand deposits, loans and advances, debt securities, equity instruments, trading and hedging derivatives, investments in subsidiaries, joint ventures and associates, and guarantees extended) at 31 December 2016 and 2015, broken down by geographical area, segment of activity, counterparty and purpose of the financing extended, is as follows:

At 31 December 2016

	Thousands of euros				
	Total	Spain	Other European Union	America	Rest of the world
Central banks and credit institutions	882,951	353,520	399,373	29,953	100,105
General government	10,726,940	9,884,482	842,457	1	-
Central Government	*4,769,109*	*3,935,151*	*833,958*	-	-
Other general government	*5,957,831*	*5,949,331*	*8,499*	*1*	-
Other financial companies and individual entrepreneurs	1,693,536	1,374,340	307,561	-	11,635
Non-financial companies and individual entrepreneurs	14,347,607	12,675,995	1,031,130	375,290	265,192
Real estate construction and property	*726,577*	*724,860*	*20*	*1,697*	-
Civil works construction	*249,891*	*249,891*	-	-	-
Rest of purposes:	*13,371,139*	*11,701,244*	*1,031,110*	*373,593*	*265,192*
Large corporations	*8,000,166*	*7,154,230*	*454,436*	*212,124*	*181,376*
SMEs and individual entrepreneurs	*5,370,973*	*4,547,014*	*578,674*	*161,469*	*83,816*
Rest of households	14,192,479	13,881,555	75,123	77,623	158,178
Housing	*12,179,052*	*11,914,184*	*69,091*	*57,738*	*138,039*
Consumer	*541,626*	*525,625*	*1,413*	*5,337*	*9,251*
Other purposes	*1,471,801*	*1,441,746*	*4,619*	*14,548*	*10,888*
SUBTOTAL	41,843,513	38,169,892	2,655,644	482,867	535,110
Les: impairment losses on assets not assigned to specific operations	-				
TOTAL	41,843,513				

A breakdown by Autonomous Region is as follows:

	Thousands of euros							
	AUTONOMOUS REGIONS							
	Total	Andalusia	Catalonia	Galicia	Madrid	Valencian Community	Basque Country	Other
Central banks and credit institutions	353,520	1,282	996	-	322,509	953	17,433	10,347
General government	9,884,482	116,567	72,482	997,335	3,654,262	11,559	46,852	4,985,425
Central Government	*3,935,151*	-	-	-	-	-	-	*3,935,151*
Other general government	*5,949,331*	*116,567*	*72,482*	*997,335*	*3,654,262*	*11,559*	*46,852*	1,050,274
Other financial companies and individual entrepreneurs	1,374,340	*2,908*	24,577	-	1,343,096	325	409	*3,025*
Non-financial companies and individual entrepreneurs	12,675,995	386,534	593,715	7,120,488	2,572,121	282,312	324,520	1,396,305
Real estate construction and property development	724,860	4,563	14,477	607,677	40,670	24,946	13,303	19,224
Civil works construction	249,891	-	637	245,798	1,348	487	-	1,621
Rest of purposes:	*11,701,244*	*381,971*	*578,601*	*6,267,013*	*2,530,103*	*256,879*	311,217	1,375,460
Large corporations	*7,154,230*	*248,439*	*365,806*	*3,489,520*	*1,902,792*	*134,619*	*193,110*	*819,944*
SMEs and individual entrepreneurs	*4,547,014*	*133,532*	*212,795*	*2,777,493*	*627,311*	*122,260*	*118,107*	*555,516*
Rest of households	*13,881,555*	*677,478*	*1,262,746*	*7,709,147*	*1,313,120*	*888,082*	*245,198*	*1,785,784*
Housing	*11,914,184*	*595,596*	*1,138,208*	*6,460,018*	*1,158,353*	*779,746*	*212,102*	*1,570,161*
Consumer	525,625	9,984	19,306	405,370	28,491	12,498	*5,790*	44,186
Other purposes	*1,441,746*	*71,898*	*105,232*	*843,759*	*126,276*	*95,838*	27,306	*171,437*
SUBTOTAL	38,169,892	1,184,769	1,954,516	15,826,970	9,205,108	1,183,231	634,412	8,180,886
Les: impairment losses on assets not assigned to specific operations	-							
TOTAL	38,169,892							

At 31 December 2015

	Thousands of euros				
	Total	Spain	Other European Union countries	America	Rest of the world
Central banks and credit institutions	2,241,295	826,542	1,205,364	102,798	106,591
General government	10,504,478	9,183,275	1,321,203	-	-
Central Government	*7,765,666*	*6,465,376*	*1,300,290*	-	-
Other general government	*2,738,812*	*2,717,899*	*20,913*	-	-
Other financial companies and individual entrepreneurs	6,856,626	6,588,926	263,526	1,165	3,009
Non-financial companies and individual entrepreneurs	9,944,032	8,996,035	440,681	420,367	86,949
Real estate construction and property	724,985	706,670	8,882	9,412	21
Civil works construction	314,784	221,129	1,365	8,878	83,412
Rest of purposes:	*8,904,263*	*8,068,236*	*430,434*	*402,077*	*3,516*
Large corporations	*3,988,629*	*3,599,190*	*242,530*	*146,909*	-
SMEs and individual entrepreneurs	*4,915,634*	*4,469,046*	*187,904*	*255,168*	*3,516*
Rest of households	*14,653,815*	*14,304,287*	*87,692*	*96,187*	*165,649*
Housing	*12,489,581*	*12,186,725*	*82,183*	*74,293*	*146,380*
Consumer	*584,327*	*566,197*	*1,562*	*5,217*	*11,351*
Other purposes	*1,579,907*	*1,551,365*	*3,947*	*16,677*	*7,918*
SUBTOTAL	44,200,246	39,899,065	3,318,466	620,517	362,198
Les: impairment losses on assets not assigned to specific operations	(255,160)				
TOTAL	43,945,086				

A breakdown by Autonomous Region is as follows:

	Thousands of euros							
	Total	Andalusia	Catalonia	Galicia	Madrid	Valencian Community	Basque Country	Other
Central banks and credit institutions	826,542	2,375	84,095	384,578	140,940	37,801	110,403	66,350
General government	9,183,275	89,515	105,404	1,174,552	581,045	14,790	47,248	*7,170,721*
Central Government	*6,465,378*	-	-	-	-	-	-	6,465,378
Other general government	*2,717,897*	*89,515*	*105,404*	*1,174,552*	*581,045*	*14,790*	*47,248*	*705,343*
Other financial companies and individual entrepreneurs	6,588,926	*2,239*	537	2,190,953	4,372,161	-	30	23,006
Non-financial companies and Individual entrepreneurs	8,996,035	217,681	479,284	4,647,666	2,055,787	271,313	257,470	1,066,834
Real estate construction and property development	*706,670*	*35,394*	*46,004*	*249,870*	*124,308*	*71,698*	44,550	*134,846*
Civil works construction	*221,129*	-	*733*	*184,524*	*22,009*	*391*	*13,003*	*469*
Rest of purposes:	*8,068,236*	*182,287*	*432,547*	*4,213,272*	*1,909,470*	*199,224*	*199,917*	*931,519*
Large corporations	*3,599,190*	*74,790*	*143,241*	*1,536,488*	*1,145,578*	*109,362*	*123,675*	*466,056*
SMEs and individual entrepreneurs	*4,469,046*	*107,497*	*289,306*	*2,676,784*	*763,892*	*89,862*	*76,242*	*465,463*
Rest of households	14,304,287	713,562	1,298,685	7,987,190	1,292,099	936,066	*251,647*	1,825,038
Housing	*12,186,725*	*614,824*	*1,156,555*	*6,672,298*	*1,122,849*	*811,960*	213,403	*1,594,836*
Consumer	*566,199*	*11,738*	*23,598*	*428,654*	*33,360*	*14,973*	*6,407*	*47,469*
Other purposes	*1,551,363*	*87,000*	*118,532*	*886,238*	*135,890*	*109,133*	*31,837*	*182,733*
SUBTOTAL	39,899,065	1,025,372	1,968,005	16,384,939	8,442,032	1,259,970	666,798	10,151,949
Valuation adjustments not attributed to specific transactions	(255,160)							
Total	39,643,905							

48. Customer Service Department

In compliance with the existing regulation, the Board of Directors of the Bank approved, at the meeting held on 14 September 2011, the establishment of Customer Service Department for the Group, whose structure and operation is governed by the Regulation approved at the above mentioned meeting and by the provisions of Law 44/2002, of 22 November, on Measures for the Reform of the Financial System, and of Ministerial Order ECO 734/2004, of 11 March, on customer service departments and customer's ombudsmen in financial institutions.

The purpose of the Customer Service Department is to process and resolve any claims or complaints submitted to the Bank, either directly or through representation, by Spanish or foreign individuals or legal entities that are customers or users of the Bank's financial services, provided that such complaints or claims refer to their legally recognised interests and rights, whether deriving from contracts, regulations governing transparency and customer protection, or from financial best practice, and, in particular, those relating to fair service.

This Department must also provide the Organisation with recommendations and suggestions based on its experience, as set out in the aforementioned Ministry of Economy Order, on those issues that could improve and strengthen the trust between the Bank and its customers.

Customer services are provided by a specific department that forms part of the Bank 's Legal Advisory Area, which is independent from the other functional units of the Bank with respect to actions and decisions, thus avoiding any conflicts of interest.

The most relevant figures for claims and complaints received from customers in 2016 and 2015 are shown below:

Financial Year 2016

Complaints received	Complaints Resolved (*)	Complaints Resolved In favour of the customer	Complaints Resolved Submitted Online	Average Resolution Time (days)
12,373	11,443	5,915	2,370	24

(*) Including resolved claims that were received in 2015

Financial Year 2015

Complaints received	Complaints Resolved (*)	Complaints Resolved In favour of the customer	Complaints Resolved Submitted Online	Average Resolution Time (days)
8,812	8,459	5,457	1,055	23

(*) Including resolved complaints that were received in 2014

The types of complaints received are as follows:

Complaint Type	Number 2016	Number 2015
Credit Products	2,354	1,477
Deposit products	4,777	3,371
Other banking products	2,589	1,533
Collection and payment services	207	232
Investment services	273	257
Insurance and plans	804	624
Other	1,369	1,318
Total	**12,373**	**8,812**

It should be noted that despite establishing general criteria for decision-making, the Bank always takes the particular circumstances of each claim and each customer or user into consideration, performing a thorough analysis of the documentation and information available in each case.

The decision-making criteria used by the Customer Service Department are based on the resolutions issued by the Bank of Spain, the Spanish National Securities Market Commission and the Directorate General of Insurance and Pension Funds regarding similar cases, as well as the Customer Service Department's own Management Policy, which has the following basic principles:

- The priority of the Customer Service Department is to deal with customers and users that are dissatisfied with one of the Bank's products or services, and to give a reasoned response to each of these parties.

- The Customer Service Department seeks to attend to each customer in the shortest possible time, giving individual and personalised customer care in each case.

- It likewise undertakes to comply with and to ensure that the rest of the organisation complies with the legislation and regulations governing customer services.

- The Customer Service Department promotes a policy of raising awareness among all units of the organisation of how to deal with customers and users, based on the principles of best practice and transparency.

Decisions are made in accordance with internal and external regulations, pursuant to contractual clauses, transparency and customer protection standards and financial best practice. The conclusions drawn must enable a clear and accurate response to the problem.

Decisions are always focused on reaching a fair solution for the parties involved, as well as maintaining mutual trust between them.

The Bank's Board of Directors believes that the claims pending a decision at the close of 2016 will not give rise to payments having a significant effect on these consolidated annual accounts.

49. Conflicts of Interest Concerning the Directors

The Directors of the Bank and their related parties have had no conflicts of interest requiring disclosure in accordance with Article 229 of the Consolidated Companies Law.

ABANCA Corporación Bancaria, S.A. ("ABANCA")

Subsidiaries at 31 December 2016

				Thousands of euros					
			Percentage of Voting Rights Controlled by the Bank		Investee Data (*)				
Company	Address	Activity		Net Carrying amount	Total Assets	Total Liabilities	Equity	Profit/loss Financial year	Date of Financial Statements
ABANCA Corporación División Inmobiliaria, S.L.U.	A Coruña	Real estate management	100.00%	691,621	989,893	241,728	748,165	(124,471)	Dec. 16
ABANCA Corporación Industrial y Empresarial, S.L.U.	A Coruña	Holding	100.00%	1,686,870	1,522,432	16,874	1,505,558	96,027	Dec. 16
SU Inmobiliaria Unipessoal, S.A.	Oporto	Real estate	100.00%	-	2,051	5	2,046	(1)	Dec. 16
Arboretum Investimentos Inmobiliarios, S.A.	Oporto	Real estate	100.00%	6,620	7,214	20	7,194	1,424	Dec. 16
Complejo Residencial Marina Atlántica, S.L.U.	A Coruña	Real estate	100.00%	-	3,414	160	3,254	(1,438)	Dec. 16
Copronova, S.L.	Vigo	Real estate	50.18%	-	551	4	547	(290)	Dec. 16
Construziona Galicia, S.L.	Vigo	Real estate	13.76%	-	76	2	74	(47)	Dec. 16
Instituto de Educación Superior Intercontinental de la Empresa, S.L. (IESIDE)	A Coruña	Training	100.00%	5	5	3	2	(2)	Dec. 16

(*) Data taken from the latest available unaudited interim financial statements Where financial statements for 2016 are not available, the column "Financial Statements Date" shows the date of the latest available financial statements.

This Appendix forms part of Note 12 to the annual accounts at 31.12.16.

ABANCA Corporación Bancaria, S.A. ("ABANCA")

Subsidiaries at 31 December 2015

Company	Address	Activity	Percentage of Voting Rights Controlled by the Bank	Thousands of euros					
				Net Carrying amount	Investee Data				
					Total Assets	Total Liabilities	Equity	Profit/loss Financial year	Date of Financial Statements
ABANCA Corporación División Inmobiliaria, S.L.U.	A Coruña	Real estate management	100.00%	777,725	1,152,364	279,728	872,636	(8,660)	Dec. 15
ABANCA Corporación Industrial y Empresarial, S.L.U.	A Coruña	Holding	100.00%	1,686,870	1,554,343	64,169	1,490,174	215,643	Dec. 15
SU Imobiliária Unipessoal LDA.	Oporto	Real estate	100.00%	-	2,050	2	2,048	(40)	Dec. 15
Arboretum, S.A.	Oporto	Real estate	100.00%	6,620	5,787	17	5,770	2,173	Dec. 15
Complejo Residencial Marina Atlántica, S.L.	Oporto	Real estate	100.00%	-	4,751	59	4,692	(10,039)	Dec. 15
Imantia Capital, SGIIC.S.A.	Madrid	Management Company	91.65%	6,248	12,292	8,006	4,286	717	Dec. 15
Other	-	-	-	6	-	-	-	-	-

This Appendix forms part of Note 12 to the annual accounts at 31.12.16.

ABANCA Corporación Bancaria, S.A. ("ABANCA")

Associated companies at 31 December 2016

Company	Address	Activity	Percentage of Voting Rights controlled by the Bank	Thousands of euros					
					Investee Data (*)				
				Net Carrying amount	Total Assets	Total Liabilities	Equity	Profit/loss Financial year	Date of Financial Statements
Cidade Tecnolóxica de Vigo, S.A.	Vigo	Infrastructures	25.07%	670	12,860	3,357	9,503	(75)	Dec. 16
Cidade Universitaria, S.A.	Vigo	Infrastructures	32.43%	1,850	9,004	1,905	7,099	(2)	Dec. 16
Obenque, S.A.	Madrid	Real estate	26.98%	-	28,907	20,945	7,962	(40)	Dec. 16
Parque Tecnolóxico de Galicia	Orense	Technological park	41.56%	898	14,474	3,468	11,006	58	Dec. 16
Raminova Inversiones, S.L.	Pontevedra	Holding	50.00%	-	-	12,582	(12,582)	-	Dec. 12
Imantia Capital, SGIIC. S.A.	Madrid	CIS Management Company	20.57%	1,250	11,240	6,898	4,342	883	Dec. 16

(*) Data taken from the latest available unaudited interim financial statements. Where financial statements for 2016 are not available, the column "Financial Statements Date" shows the date of the latest available financial statements.

This Appendix forms part of Note 12 to the annual accounts at 31.12.16.

ABANCA Corporación Bancaria, S.A. (“ABANCA”)

Associates at 31 December 2015

Company	Address	Activity	Percentage of Voting Rights controlled by the Bank	Thousands of euros					
					Investee Data				
				Net Carrying amount	Total Assets	Total Liabilities	Equity	Profit/loss Financial year	Date of Financial Statements
Cidade Tecnolóxica de Vigo, S.A.	Vigo	Infrastructures	25.07%	670	13,411	3,759	9,652	(94)	Dec. 15
Cidade Universitaria, S.A.	Vigo	Infrastructures	32.43%	1,850	9,063	1,980	7,083	(6)	Dec. 15
Obenque, S.A.	Madrid	Real estate	21.25%	-	37,829	21,319	16,510	260	Dec. 15
Parque Tecnológico de Galicia, S.A.	Ourense	Technological park	41.56%	897	14,590	3,884	10,706	35	Dec. 15
Raminova Inversiones, S.L.	Pontevedra	Holding	50.00%	-	61,244	48,662	12,582	(2,187)	Dec. 12

This Appendix forms part of Note 12 to the annual accounts at 31.12.16.

ABANCA Corporación Bancaria, S.A. ("ABANCA")

List of individuals designated for customer acquisition or for the promotion and marketing of transactions or services pursuant to Bank of Spain Circular 4/2010

Name	Address	Area of activity
Tecmer Técnicos Mercantiles, S.L.	Pontevedra	11
Vázquez Gonzalez, Jose Antonio	A Coruña	11
Rodríguez Díaz, Maria Cristina	A Coruña	11

This Appendix forms part of Note 1.6 to the annual accounts at 31.12.16.

ABANCA Corporación Bancaria, S.A. ("ABANCA")

ABANCA Corporación Bancaria, S.A. securitisation funds.

At 31 December 2016:

Securitisation Fund	Entity	Origination date	Total exposures securitised at origination date	Total exposures securitised at 31.12.2016
HT ABANCA RMBS I FT	ABANCA CORPORACIÓN BANCARIA, S.A.	05/2016	900,000	877,019
AYT COLGLOBHIP 1, FTA	ABANCA CORPORACIÓN BANCARIA, S.A.	03/2008	900,000	462,325
AYT COLGLOBHIP 2, FTA	ABANCA CORPORACIÓN BANCARIA, S.A.	06/2008	950,000	458,157
AYT ICO FTVPO I	ABANCA CORPORACIÓN BANCARIA, S.A.	03/2009	76,550	6,928

At 31 December 2015

Securitisation Fund	Entity	Origination date	Total exposures securitised at origination date	Total exposures securitised at 31.12.2015
AYT 1, FTH	ABANCA CORPORACIÓN BANCARIA, S.A.	06/1999	307,481	7,194
AYT COLGLOBHIP 1, FTA	ABANCA CORPORACIÓN BANCARIA, S.A.	03/2008	900,000	483,467
AYT COLGLOBHIP 2, FTA	ABANCA CORPORACIÓN BANCARIA, S.A.	06/2008	950,000	475,741
AYT ICO FTVPO I	ABANCA CORPORACIÓN BANCARIA, S.A.	03/2009	76,550	7,123

This Appendix forms part of Note 9 to the annual accounts at 31.12.16.

ABANCA Corporación Bancaria, S.A. ("ABANCA")

Reconciliation of line items of the balance sheet and the statement of profit or loss under the standards applied in the annual accounts for 2016 and under Bank of Spain Circular 5/2014, of 28 November.

Balance Sheet

Annual accounts for 2015	Bank of Spain Circular 5/2014
Cash and deposits in central banks	Cash, cash balances with central banks and other demand deposits
Financial assets held for trading	Financial assets held for trading
Available-for-sale financial assets	Available-for-sale financial assets
Loans and receivables	Loans and receivables
Held-to-maturity investments	Held-to-maturity investments
Hedging derivatives (assets)	Derivatives - hedge accounting (assets)
Non-current assets held for sale	Non-current assets and disposal groups classified as held for sale
Investments	Investments in joint ventures or associates
Insurance contracts linked to pensions	Other assets - Insurance contracts linked to pensions
Reinsurance assets	Assets covered by insurance or reinsurance contracts
Tangible assets	Tangible assets
Intangible assets	Intangible assets
Tax assets	Tax assets
Other assets	Other assets
Financial liabilities held for trading	Financial liabilities held for trading
Financial liabilities at amortised cost	Financial liabilities at amortised cost
Hedging derivatives (liabilities)	Derivatives - hedge accounting (liabilities)
Liabilities under insurance contracts	Liabilities covered by insurance or reinsurance contracts
Provisions	Provisions
Tax liabilities	Tax liabilities
Other liabilities	Other liabilities
Own funds	Shareholders' equity
Valuation adjustments	Accumulated other comprehensive income
Minority interests	Minority interests
Contingent exposures	Guarantees extended
Contingent commitments	Contingent commitments given

ABANCA Corporación Bancaria, S.A. ("ABANCA")

Reconciliation of line items of the balance sheet and the statement of profit or loss under the standards applied in the annual accounts for 2016 and under Bank of Spain Circular 5/2014, of 28 November.

Statement of profit or loss

Annual accounts for 2015	Bank of Spain Circular 5/2014
Interest and similar income	Interest income
Interest expense and similar charges	Interest expense
Return on equity instruments	Dividend income
Share of profit or loss of entities accounted for using the equity method	Share of profit or loss of equity-accounted investees
Fee and commission income	Fee and commission income
Fee and commission expenses	Fee and commission expense
Gains or losses on financial assets and liabilities (net)	Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net
	Gains or losses on financial assets and liabilities held for trading, net
	Gains or losses on hedge accounting, net
Exchange differences (net)	Exchange differences, net
Other operating income	Other operating income
Other operating expenses	Other operating expenses
Administrative expenses	Administrative expenses
Depreciation and amortisation	Depreciation and amortisation
Provisioning expense (net)	Provisions or reversals of provisions
Impairment losses on financial assets (net)	Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss
Impairment losses on other assets (net)	Impairment or reversal of impairment on investments in joint ventures or associates
	Impairment or reversal of impairment on non-financial assets
Gains (losses) on non-current assets held for sale not classified as discontinued operations	Gains or losses on derecognition of non-financial assets and investments, net
Negative goodwill on business combinations	Negative goodwill recognised in profit or loss
Gains (losses) on non-current assets held for sale not classified as discontinued operations	Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations
Income tax	Income tax expense or income related to profit or loss from continuing operations
Profit or loss from discontinued operations (net)	Profit or loss after tax from discontinued operations

1. Scope, sphere and global framework of Directors' Report

This directors' report of ABANCA Corporación Bancaria S.A. (hereinafter ABANCA, the entity's trade name) describes the initiatives, business performance and profits/losses of the Entity during 2016.

2. Economic, financial and regulatory environment

Economic environment

The economic environment in which ABANCA carried out its activity in 2016 was one of building on the recovery which began in Europe and especially in Spain three years ago.

- Major challenges arose in the international arena during 2016, including the UK's decision to leave the European Union, political uncertainty in several European countries, the presidential elections in the United States, the hike in oil prices and various geopolitical tensions. Against this backdrop, global economic growth in 2016 has been estimated at 3%, slightly below the prior year.

- The Eurozone continued to make progress in the consolidation of its economic recovery started in 2014, and achieved further moderate growth thanks to the support of stimulus measures undertaken by the European Central Bank. In 2016 GDP growth has been estimated at 1.7%.

- In 2016 the Spanish economy performed better than forecast at the start of the year, with continuous robust growth despite the political uncertainties (temporary caretaker government) and the gradual loss of momentum of certain circumstantial factors that worked to the country's benefit in 2015, such as oil prices and the Euro's depreciation. Thus, preliminary data indicate that GDP grew by 3.2% in 2016, in line with the figures for 2015 and outperforming the other major advanced economies. The driving force behind this growth continued to be private consumption, itself a result of the improved labour market. The Spanish economy's growth has therefore outpaced the rest of the Eurozone for the third year running.

- Expansion in Galicia was brisk throughout the year, allowing this region to bridge the growth gap with the rest of Spain and even outperform the Spanish economy as a whole in the last two quarters thanks to the increased dynamism seen in industrial activities and services. Annual growth is estimated to have reached 3.1%, the highest rate since 2007. Galicia's economic growth is founded on the strength of domestic demand, and on foreign business that has outshone that of the whole of Spain.

- In such a scenario, the labour market continued to perform soundly. The Active Population Survey data indicate a 2.3% year-on-year rise in employment in Spain in the fourth quarter, equivalent to an additional 414 thousand people in work (525 thousand in 2015). This achievement is reflected in a further reduction in joblessness (down 11%, i.e. 542 thousand fewer unemployed workers than in the prior year), with the unemployment rate pushed down from 20.9% at the 2015 year end to 18.6%. In Galicia, job creation continued uninterrupted, up 1.7% year-on-year, representing 17 thousand more people in work. The latest decline in unemployment (a drop of 8%) led to an unemployment rate of 16.3% at the 2016 year end, compared with 17.7% at the end of 2015.

- The annual rate of inflation in Spain stood at 1.6% in 2016, the highest since July 2013. The inflation spike towards the end of 2016 was mainly attributable to fuel and electricity prices, in turn a result of rising oil prices (up 45% over the year in the case of Brent). Annual core inflation (excluding unprocessed food and energy products) stood at 1.0%. For the first time since the start of this expansionary phase, the inflation differential vis-à-vis the Eurozone, as measured through the overall harmonised index, was unfavourable for Spain.

Financial environment

- In March 2016 the European Central Bank brought in new measures as part of its expansive monetary policy, entailing interest rate drops and balance sheet increases. These measures hailed an increase in the volume of debt purchases (including corporate debt) and implementation of a new set of targeted longer-term refinancing operations (TLTRO II). In December, the ECB announced that its monetary stimulus package would remain in place at least until December 2017.

- Meanwhile, also in December, the U.S. Federal Reserve announced its intention to raise interest rates by one-quarter point to the 0.50%-0.75% range. This was the second interest rate hike since the normal monetary policy was resumed a year earlier.

- The expansionary nature of the European Central Bank's monetary policy has pushed the yields on European public debt downwards. In Spain, the average IRR on 10-year bonds in 2016 stood at 1.38%, down from 1.75% in the prior year, and dipped to a record low of 0.90% in late September. The risk premium ended the year at 119 basis points (similar to the start of the year) after peaking at 165 basis points in late June following the announcement of the *Brexit* referendum result.

- European monetary policy has also affected short-term interest rates. The 12-month Euribor closed the year at -0.08%, a historic low, compared with the opening rate of +0.06%. Shorter-term rates also slipped further into negative territory throughout the year.

- The divergent monetary policies on both sides of the Atlantic paved the way for the Euro's depreciation against the Dollar, the single currency having slid 3% at the end of 2016 compared to the start of the year.

- In this scenario, outstanding lending in Spain fell by 2.8% in 2016, reflecting the ongoing deleveraging which has been accompanied by a twofold trend in new products. Lending to individuals and SMEs delivered positive growth of 6% and 4%, respectively, whilst lending to major firms dropped by 33%. The non-performing loan ratio continued to fall, closing December 2016 at slightly under 8.5%. Retail deposits show an annual increase of 3.5% founded on deposits from companies and demand deposits, inasmuch as time deposits from private individuals, in a scenario of negative interest rates, continue to be affected by growth in off-balance sheet funds, especially investment funds (up 7%).

- The lesser need for provisions, together with controlled operating costs and adjusted financing costs, have been a determining factor for Spanish financial institutions in 2016 in staying on the path to profits embarked upon in 2013. Until September 2016 (the latest date for which aggregate information is available), pre-tax profit for Spanish financial institutions as a whole reached €10,601 million, 1.4% up on the figure for the same period in 2015.

Regulatory environment

The most relevant developments in regulatory activity affecting the banking business in 2016 are as follows:

- Reporting to Banco de España on commissions on ATM cash withdrawals: Bank of Spain Circular 3/2016, of 21 March, addressed to institutions that own ATMs and issuers of cards and payment instruments, on the reporting requirements regarding commissions on ATM cash withdrawals. The purpose of the Circular is to lay down the reporting requirements regarding the commissions that institutions that own ATMs receive from the issuers of cards or other payment instruments on the cash withdrawals made by the customers of the latter from ATMs located in Spanish territory.

- Adaptation to Basel III: Bank of Spain Circular 2/2016, of 2 February, on supervision and solvency of credit institutions completes the adaptation of Spanish legislation to Directive 2013/36/EU and Regulation (EU) No. 575/2013 for Basel III purposes. This brings advances in the regulation of aspects such as capital buffers, internal governance and organisation, capital self-assessment and the supervisory review process, the treatment of risks, financial conglomerates and reporting obligations to the market and to the Bank of Spain.

- Bank of Spain Circular 4/2016, of 27 April, amending Circular 4/2004 to credit institutions on public and confidential financial reporting rules and formats and Circular 1/2013 on the Central Credit Register.

  The main purpose of this Circular is to update Annex IX of Circular 4/2004 through a complete redraft. It also amends other rules of the Circular pertaining, inter alia, to accounting criteria, recognition and measurement of financial instruments, impairment of other assets, individual and consolidated confidential statements and the notes to individual annual accounts, and rule 2 of Circular 1/2013 on exposures to be reported.

- Circular 5/2016, on the method for calculating contributions to the Deposit Guarantee Fund for Credit Institutions from its member institutions, whereby the amount to be contributed is adjusted for the aggregate risk-weighting attributed to each institution, such that the contribution is proportionate to their risk profile.

- Commission Delegated Regulation (EU) 2016/1450 of 23 May 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities.

- Judgement of the Court (Grand Chamber), 21 December 2016, 'References for a preliminary ruling — Directive 93/13/EEC — Consumer contracts — Mortgage loans — Unfair terms'. The European Court of Justice ruled that EU Law precludes national case-law whereby the restitutory effects of the nullity of an unfair term are limited to amounts overpaid after the delivery of the judgement in which the finding of unfairness is made.

- Recommendation of the European Central Bank of 13 December 2016 on dividend distribution policies (ECB/2016/44) (OJ C 481, 23 December 2016). This recommendation classifies entities into three categories, depending on the degree to which capital requirements are satisfied (and by reference to "fully loaded" ratios), and sets out a dividend distribution policy for each category.

3. Significant events that determined performance in 2016

- Mr. Ignacio Sánchez-Asiaín joined ABANCA as an independent director in February. The new director has a long professional career in the financial industry, in entities such as BBVA (where he has held positions of responsibility and has served as head of several areas in Spain and Latin America) or Kutxabank (where he served as corporate general manager), in addition to directorships in several companies.

- In October, Mr. Eduardo Eraña also joined the Entity as an independent director. The new director has a substantial professional background as an international expert in payment methods (until 2015 he served in Visa Inc. as President for Latin America and the Caribbean, leading the company's strategy and business projects in 44 countries; he had previously served as Executive Vice-president in Visa ALC and as President in Visa Mexico) and will chair ABANCA's Appointments Committee.

  These appointments have further strengthened the independence of the Board of Directors.

- Presentation of a new insurance model and plans based on the creation of a new organisational structure, implementation of a new commercial model and presentation of new products, such as "Tarifa Plana ABANCA Seguros" (ABANCA Insurance Flat Rate). The latter service allows customers to group together all of their family's insurance policies and settle their annual insurance premiums in fixed monthly payments at no extra charge.

- Introduction of innovative payment methods: Launch of "ABANCA Pay", an app that allows customers to make instant payments at no charge from their mobile phones to any bank customer in the world, whether they have a mobile phone or not; and "Samsung Pay", a service that enables customers to make purchases using their mobile phone, in a user-friendly and safe environment, in any commercial establishment that accepts contactless debit or credit cards.

- Creation of ABANCA Consumer, a unit that specialises in the consumer credit market. This unit has been set up to strengthen the institution's positioning and drive growth in the consumer credit segment.

- Creation of ABANCA Mar, a business unit set up to serve the fishing sector. Through this new division, the bank will bolster its specialisation, approachability and tailored offering for businesses and professionals operating throughout the fisheries value chain.

- ABANCA inaugurated its new corporate headquarters in the centre of Madrid, in a building that embodies an innovative technological and architectural base. "R4" represents a complete transformation in working methods, enhancing efficiency so as to provide better service to our customers.

- A new representative office in Brazil (Rio de Janeiro) has been opened to meet the potential needs of more than 123,000 Spaniards.

- ABANCA presented its first Corporate Social Responsibility Report. This document describes the social, corporate governance and business activities carried out by the financial institution in 2015.

- ABANCA completed its first sale of a portfolio of impaired debt without mortgage guarantee, amounting to €1,383 million. This sale is encompassed in the Bank's plan to generate value on the divestiture of non-strategic assets.

- Improvements in the transparency of the pre-contractual information on and advertising of debt products, life insurance savings policies, and pension and insurance plans in compliance with Ministry of Economy and Competitiveness Order ECC/2316/2015, of 4 November.

- AENOR renewed the quality certificate in accordance with ISO 9001 for ABANCA's means of payment, electronic banking and mobile banking.

- The 2015-2018 collective bargaining agreement for savings banks and financial institutions, which applies to ABANCA Corporación Bancaria S.A., was signed by the employers' association ACARL and the trade unions, representing 85.13% of sector workers.

- In December 2016, the Group notified the Spanish National Securities Market Commission (CNMV) that in September 2016 both ABANCA Corporación Bancaria S.A. and ABANCA Holding Financiero, S.A. complied with the minimum capital requirements established by the European Central Bank (ECB) for 2017. On a consolidated basis, at the end of 2016 ABANCA Corporación Bancaria S.A. had a CET1 capital ratio of 14.71%, compared to BCE's 7.50% requirement. At the end of 2016, total capital ratio was 15.03%, compared to the required 11.00%. On an individual basis, these ratios were 14.5% and 14.9%, respectively.

- Changes in ABANCA's credit ratings in 2016 were as follows:

    - On 25 October 2016 Standard & Poor's (S&P) upgraded its outlook for ABANCA Corporación Bancaria S.A. from stable to positive. S&P confirmed its long-term and short-term issuer ratings of B+ and B, respectively.

    - On 27 October, S&P upgraded its rating outlook for covered bonds of ABANCA Corporación Bancaria, S.A. from stable to positive. Its A rating has been confirmed.

    - On 4 November 2016, the agency Fitch Rating applied its new methodology and upgraded the rating for ABANCA Corporación Bancaria, S.A.'s covered bonds from BBB+ to A-. The outlook has remained stable.

4. Activities of entities that make up the ABANCA Group at the 2016 year end

4.1. Strategy

In 2016 the management strategy of ABANCA centred on:

- Completing the roll-out of specialist commercial structures so as to provide a tailored service to customers which meets their needs. The entity has created new units, to which managers who are specialists in insurance, the primary sector, personal banking, private banking, consumer finance, self-employed persons and companies have been assigned.

- Making headway in the shift towards 'micro' activities, by strengthening the leading role played by retail business in the entity's activities as a basis for generating recurrent revenues. Emphasis on the family, micro-SME, business and self-employed segments has been enhanced, availing of a local network and the development of lines of business that have been specifically designed to offer a service of value to customers in these segments.

- Further strengthening the bank's strategic lines of business such as insurance, means of payment and investment funds. In 2016 assets under management in investment funds, pension plans and savings insurance grew by 12.2% whilst sales of insurance policies jumped 33.3%.

- Driving the bank's technological innovation and transformation, which will be key to ensuring the quality of our service, improving efficiency and responding to increasingly digital social habits. ABANCA has made significant investments, €100 million in 2016, to renew its technological infrastructure and ATM network and to develop its remote banking, culminating in its mobile app achieving the highest ratings within the sector.

- Focusing on risk management and reducing distressed assets by maintaining high write-down levels, as a basis for asset quality and ensuring sustainable growth. As a result, the Group has successfully reduced its non-performing debts by 20% over the year and achieved a coverage ratio of 54% of distressed assets, despite more stringent requirements under the new Annex IX.

- Reinforcing capital levels. On a consolidated basis, the Common Equity Tier 1 (CET 1) capital ratio was 14.7% in December, representing surplus capital of €1,765 million with respect to the European Central Bank requirements.

- Managing compliance with the commitments under the Term Sheet, which expires in December 2016 and has entailed major restrictions during the year concerning the size of the balance sheet, management of the fixed-income portfolio, wholesale market operations and divestments.

4.2. 2016 results

By the close of 2016, ABANCA has posted a net profit of €315.7 million. ABANCA's assets amounted to €45,018 million, with performing loans growing 4.0% over the year and customer deposits up by €1,782 million. The coverage ratio for non-performing loans stood at 50%, with core capital levels remaining high (the CET1 ratio as per Basel III is 14.5%) and an ample surplus in the liquidity structure.

Further details of the ABANCA's profits in 2016 are provided below:

a) Business

In 2016, ABANCA extended new financing amounting to €7,827 million, while also financing a total of €13,034 million in the year through discount, foreign trade, factoring and reverse factoring facilities, which is an increase of 13.5% on the prior year. SMEs and self-employed workers have been the main recipients of this new financing, and the new working capital financing facilities have proven popular.

As such, loans and advances to customers stood at €27,941 million in 2016, with a year-on-year rise of €1,021 million (4.0%) in gross performing loans.

In the securities portfolio, fixed income stood at €9,352 million at the end of 2016, down by 21% compared to the prior year. ABANCA ended 2016 with an equity portfolio amounting to €2,498 million.

Turning to liabilities, at the end of 2016, deposits amounted to €35,075 million, with annual growth of €1,261 million (4.2%) in deposits from retail customers. This year has brought a change in the structural mix, with a shift towards demand deposits.

Resources managed in added-value products totalled €4,797 million at the end of 2016, up 12% year-on-year.

Thus, retail customer funds ended the year with a balance of €36,107 million, climbing by €1,782 million during the year.

The volume of funds from issues of securities, including the single bond issues recorded in deposits from customers, declined by €1,097 million (-24.0%) compared to December 2015, in line with the strategy of reducing dependence on wholesale markets as a source of financing.

b) Results

The performance of the main items in ABANCA's statement of profit or loss in 2016 was as follows:

- Net interest margin was €371.3 million, affected by the restructuring of the fixed-income portfolio and the repricing of SAREB bonds. The fall in income on financing extended to customers as a result of interest rates dropping to historic lows has been offset with a sharper reduction in finance costs. As a result, the recurrent profit margin rose by 11.7% on the prior year to stand at €388 million at the 2016 year end.

- Net fee and commission income totalled €132.0 million, reflecting a (2.2%) year-on-year variation, driven by the rise in income from operations involving added-value products (mutual funds, plans and savings insurance) and from brokerage services in other lines of insurance.

- Net gains on financial assets and liabilities amounted to €53.5 million, due to the lower gains obtained as a result of restructuring of the fixed-income portfolio, while exchange differences stood at €8.6 million and dividend income was €76.4 million. The gross margin was therefore €576 million at the end of 2016.

- Operating expenses fell by 14.0% to €448.3 million, thanks to the efficiency measures implemented at the entity in recent years.

- This trend in income and expenses led to a margin before provisions of €127 million at the end of the year.

- The recurring provisions for the year amounted to €73.6 million, which represents keeping the cost of risk at 0.3%. In view of the conservative provisioning policy followed in recent years, the improvement of credit quality, the impact of the new legislation on provisions, together with other isolated recoveries, has contributed to a reduction in provisions by €158 million.

- ABANCA's pre-tax profit in 2016 was €367.7 million. With its ROTE hovering around 8% in recent years, ABANCA has proven to have one of the best profitability ratios in the sector since its privatisation.

c) Risk quality, solvency and liquidity

At the end of 2016, non-performing loans were down by €542 million (20.1%) compared to 2015, to €2,153 million.

The provision for loan losses amounted to €1,073 million, giving a loan coverage ratio of 50% at the 2016 year end.

Following the ECB's recent publication of the SREP capital requirements for 2017, the capital presented by ABANCA in excess of regulatory requirements continues to be among the largest surpluses in the Spanish financial system (CET1 surplus of + €1,765 million).

These high solvency levels, as evidenced by the CET1 capital ratio of 14.5%, are based on organic capital generation in the Group through its recurrent results and optimisation of its risk-weighted assets (down by €436 million during the year).

With liquid assets amounting to €11,849 million, ABANCA comfortably meets the ECB requirements set for the end of 2018, in terms of both the short-term Liquidity Coverage Ratio (LCR) and the long-term Net Stable Financing Ratio (NSFR).

d) Other information

At 31 December 2016, ABANCA Corporación Bancaria S.A. holds 214,852,349 treasury shares, with a par value of €1 each, representing 8.8% of its capital. These shares mainly originate from the FROB's management of hybrid equity instruments and subordinated debt, which affected the entity, as well as from the various rulings against the entity in relation to the sale of the hybrid instruments and subordinated debt.

At the end of 2016 ABANCA has an operational network of 655 branches in Spain, of which 530 are located in Galicia and 125 in the rest of the country. ABANCA also has 5 operational branches and 8 representative offices abroad, bringing the total branch network to 668.

Furthermore, it has 1,058 ATMs, 37,123 POS terminals and has issued 1.41 million cards to its 2.1 million customers. Currently, more than 40% of interactions with the Bank's customers are through non-branch channels (online, mobile, telephone and ATMs).

At the 2016 reporting date ABANCA has 4,032 employees, the number of workers having dropped by 71 during the year. The "Experiencia ABANCA" training programme of internships at branches remained underway throughout the year. Through this programme, and with the collaboration of the universities of Galicia, León and Asturias, ABANCA aims to facilitate the incorporation of new graduates into the labour market.

During 2016, ABANCA's commitment to its socio-economic environment took the form of various initiatives launched with the intention of promoting, diffusing and supporting its dedication to good governance, education, culture and society as a whole.

In the area of education, April brought the presentation of Instituto de Educación Superior Intercontinental de la Empresa (IESIDE), a higher education company-orientated institution set up with the aim of complementing and building on the university courses on offer in Galicia and enhancing cooperation between the business and academic communities in this autonomous region.

The ABANCA ReSuena social project, founded on an ethical, occupational and artistic model, uses music as a tool to unite and integrate children from all social, economic and cultural backgrounds. This project was launched in 2015 and received the Excelentia Award for Culture in 2016.

Throughout the year, ABANCA continued to promote its Financial Education programme aimed at advising citizens of all ages of the most relevant information and concepts in the world of finance, so as to encourage more responsible and conscientious financial practices enabling consumers to take informed decisions.

In terms of its commitment to society, ABANCA set up the "Foro ABANCA Responsable", an initiative to contribute towards the development of corporate social responsibility (CSR) in Galicia by encouraging businesses in the region to adopt responsible management models. The forum works to uphold responsible management, foster its public profile and study and propose initiatives, rules and activities geared towards developing a favourable legal framework, whilst promoting and sharing best practices with companies, associations and institutions, and guiding and assisting other entities in setting up responsible management systems.

In the area of sports, ABANCA has earmarked €3 million over the next five years to support Fundación Deporte Galego, thereby becoming the only patron of the Galicia Top-Level Teams Sponsorship Programme which is open to youth sports teams. In 2016 this Programme encompassed a total of 17,556 sports enthusiasts practising 21 different sports, including 13,501 children in sport clubs' academies.

The Entity's commitment to good governance remains unchanged. Especially noteworthy is ABANCA's policy to protect mortgage debtors, which has been structured around three key pillars: the Code of Best Practice, the Social Housing Fund and the Special Vulnerability Committee.

In terms of supporting art and culture, with the aim of allowing society to enjoy the benefit of its art collection (comprising a total of 1,350 works of art by 239 artists – the largest corporate artistic initiative in Galicia and declared an asset of cultural interest in 2015), in 2016 ABANCA held eight exhibitions (both in Galicia and beyond) and ran a project to sponsor the restoration of a mural by Urbano Lugrís.

5. Exposure to market, credit, liquidity, interest rate, currency and operational risk

For each of the risk types attaching to in its financial activities, ABANCA has defined general policies and limits, set out in its internal management manuals, together with a framework of powers and delegation thereof, in order to facilitate decision-making. The limits for each area of risk are defined so as to reduce capital consumption, in accordance with the retail profile of the entity.

The most relevant aspects relating to the policies and limits for each type of risk exposure at the 2016 year end are as follows:

- Market risk: this risk is partly managed on the basis of the segregation of duties between the risk-taking areas and those in charge of risk assessment and control, and partly by setting limits with regard to permitted activities and the risks to be assumed in terms of positions, profits and potential losses (using the VaR method). At the same time, analyses are conducted to test sensitivity to variations in market prices, as well as scenario analysis, or stress-testing. At 31 December 2016 the value at risk of the trading portfolios stood at €60 thousand.

- Credit risk: credit risk is managed on the basis of the following pillars: i) objectivity, independence and an overview in decision-making; ii) a global system to limit concentration by customers, and exposure by segments, sectors, guarantees, countries, etc.; iii) a decentralised loan approval system that combines an individual expert analysis with the use of appropriately validated statistical systems and models that are supervised in accordance with the policies of the Bank; iv) involvement of the governing bodies and senior management in decision-making; v) ongoing monitoring of the quality of the investment by the entire structure of the entity. At 31 December 2016 ABANCA had classified loans totalling €2,153 million as non-performing, for which provisions of €1,073 million had been made.

  At the 2016 close, financing provided by ABANCA for real estate construction and property development amounted to €666 million, accounting for 2.4% of loans. Moreover, the gross outstanding balance of forbearance transactions totalled €3,036 million (a reduction of €1,575 million during the year), of which 62% have been classified as non-performing, with coverage of 29.50%.

- Liquidity risk: Management thereof is based on the existence of an annual liquidity plan designed on the basis of the analysis of scenarios and maturities, that takes into account not only normal market situations but also other contingencies that may occur and that are transferred to the contingency plan. Liquidity risk control focuses on checking the availability of liquid assets sufficient to cope with potential liquidity stress situations and daily monitoring of the liquidity position through indicators, alerts and stress analysis. Liquid assets totalled €7,367 million at the 2016 year end, which gives the Bank a coverage ratio of 2.14 for its total wholesale issues net of treasury stock.

- Interest rate risk: For its control, models are used to establish limits and determine the sensitivity of the financial margin and the economic value of the entity to variations in the interest rate. At 31 December 2016 a 200 b.p. decrease in interest rates would have a positive effect of €162 million (4.5% of capital) on the Bank's economic value; this same change in market rates would have a negative impact of €4.3 million on met interest margin.

- Currency risk: Currency risk is managed by setting limits to global exchange positions in the currencies of greater relevance in international operations; at 31 December 2016, the equivalent value in Euro of ABANCA's global position was 0.11% of own funds.

- Operational Risk: In this area, ABANCA is guided by applicable national and European regulations, the recommendations of the Basel Committee on Banking Supervision, as well as by sector best practices proposed by the Spanish Operational Risk Consortium (CERO). Operational risk management is geared towards identifying, assessing and mitigating the operational risk inherent in all relevant products, activities, processes and systems in order to afford the Bank greater control over the risks to which it is exposed, supported by the management tasks carried out by the business and support units and by the independent corporate function performed by the Operational Risk Unit.

6. Research, development and innovation activities

Technological transformation has become one of the cornerstones of ABANCA's undertakings. In 2015 and 2016 ABANCA set in motion a number of initiatives as part of the ABANCA DIGITAL strategy to position the Bank as a benchmark institution.

The most relevant lines of work include:

- Technological renewal: The technological renewal plan implies the replacement of systems (core software, applications and infrastructure) so as to adapt to the latest technological developments, incorporate leading international solutions renowned for their ease of operation and security, and implement best practices in banking functions. The investment launched in 2015 to renew ATMs, POS terminals and applications continued during 2016. The entity continues to focus on mobility as part of its new branch model, with 1,531 Microsoft Surface tablets provided to more than 35% of ABANCA personnel. Furthermore, 663 ATMs have received next-generation updates, accounting for nearly 70% of the machines to be upgraded in this process, and 11,151 POS terminals have also been renewed with different technologies.

- Mobile Banking: The mobile banking system is constantly evolving to incorporate new and primarily card-related functions. Use of mobile banking continues to grow, with the number of registered customers rising by 37% (474,799 users at the 2016 year end, compared with 347,048 in December 2015) and logins up by 65%.

- Design Thinking and "Lean Innovation" (Adobe Kickbox project): A number of initiatives were rolled out in 2016 to foster activities to improve and develop new ideas internally (with ABANCA employees) and in conjunction with entrepreneurs through the ABANCA Scholarship and Innovation scheme. The first stage of this scheme culminated with 20 innovators presenting and explaining their respective projects at a "Sponsors Day" held in December 2016.

- Samsung Pay and Contactless POS terminals: ABANCA has signed an agreement with Samsung and is one of the first two banks nationwide to launch a mobile payment service in Spain and Europe. The Bank has also worked on adapting POS terminals for contactless technology, which enables payment using NFC (Near Field Communication).

- Instant Payments with ABANCA Pay: An App for Android and IOS has been launched in collaboration with CECABank. This service enables money to be quickly sent from one mobile phone to another in a user-friendly manner, irrespective of the destination bank, the funds being received in a current account. This complements other on-the-spot payment methods, such as HalCash (instant payment via an ATM or mobile phone).

- e-Correspondence: usage of this service is up 123% on 2015, boosted by improvements to its user interface.

- "Sentir Digital" project ("Clara" digital account): ABANCA's new digital strategy has been a cornerstone of its undertakings since 2015. Throughout 2016, a number of improvements have been implemented as part of the "Sentir Digital" project, with a view to enhancing our customers' positive digital experience: arrangement of securities contracts through telephone banking, improvements to the customer authentication procedure via passwords or card + SMS OTP, arrangement of flat-rate insurance, etc.

- Certification of Excellence for Retail Banking Services: ABANCA has been awarded Certification of Excellence for Retail Banking Services. This seal of quality evidences ABANCA's commitment to excellence in its customer service and to improving and managing the customer experience through appropriate customer care models and the internal work mechanisms in place.

- RPA - Robotic Process Automation. 2016 saw the launch of a number of RPA pilot schemes to automate organisational tasks. Automation has reduced the time spent on processes by 75% compared with manual processes.

7. Activities and outlook for 2017

The economic projections for 2017 point towards quickening global economic growth of up to 3.4%, according to forecasts made by the European Commission in winter. Expansion in the emerging bloc is expected to hit 4.5%, with notable turnarounds in Russia and Brazil, which will once again achieve positive growth following two years of contraction. Developed economies are set to post further moderate growth, with forecasts averaging at 2% (1.6% in the Eurozone and 2.3% in the United States).

Spain's robust growth trend is predicted to continue, once again outperforming other major European economies, although some of its current impetus is expected to be lost, with GDP growth forecast at around 2.3%-2.5%. The let-up in the growth rate is mostly attributable to the gradual loss of momentum from the factors that have driven the Spanish economy in recent years (oil prices, expansionary fiscal and monetary policies). The prolonged improvement in the labour market is expected to further drive consumption, against a backdrop of dynamic investment and higher inflation.

Galicia is on track to consolidate its growth and could even outperform Spain as a whole. Private consumer spending will continue to be dynamic, supported by the ongoing recovery in the labour market, whilst investment is set to gather pace. Foreign business is forecast to once again make a net contribution to growth, while the contribution from the public sector is expected to benefit from the relatively healthier fiscal balance of Galicia.

Following the expiry of the Term Sheet period (in December 2016), the environment in which the Bank will foreseeably carry out its activity in 2017 reaffirms the suitability of the priorities that have been guiding its activity, and which are laid down in the 2015-17 Strategic Plan:

- Lending will continue to increase, focusing particularly on micro business (consumer and SME segments), whilst demand deposits and off-balance sheet funds will continue to represent the bulk of new funds raised.

- A flexible banking model and an accessible, high-quality service will allow the Bank to further boost its market share in Galicia, while its selective presence throughout the rest of Spain and the development of its multi-channel service will enable a gradual increase in market share outside the region. All of the above will be underpinned by the optimisation of the commercial system and the specialised treatment of segments that require unique, customised services.

- Efforts will also centre on the insurance business, investment funds and means of payment, which are commission-based activities that have substantial upside potential.

- Development of the digital banking area will be ongoing, with a particular focus on mobile banking as both an activity that can generate new business and a necessary component in the migration of operations. To this end, efforts will continue to focus on investment in technology, the improvement of procedures, solutions and quality standards, and the launch of new products and services.

- Lastly, capitalisation and risk control through the application of prudent policies will continue to be the pillars for generating profits.

8. Events after the 2016 reporting period

- On 9 February 2017 Standard & Poors moved its long-term issuer rating for ABANCA up one notch from B+ to BB-, with a positive outlook. The agency values the strengthening of the solvency of ABANCA linked to the improvement of the environment.

- ABANCA Personal was launched as a specialist unit to provide services for high-income customers and others with a medium-high level of funds who require a more personalised customer service.

  ABANCA Innova, the bank's innovation initiative, and Conector Startup Accelerator, a specialist accelerator for start-ups at the seed stage, have joined forces to drive the ABANCA

Innova by Conector accelerator programme. This corporate accelerator initiative specialises in fintech, insurtech and regtech projects, and financial technological solutions in general.