Audit Report on Consolidated Financial Statements issued by an Independent Auditor

BANCO CAMINOS, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and Consolidated Management Report for the year ended December 31, 2018

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 30)

To the Shareholders of BANCO CAMINOS, S.A.:

Audit report on the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of BANCO CAMINOS, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet at December 31, 2018, the income statement, the statement of recognized income and expense, the statement of total changes in equity, the cash flow statement, all of them consolidated, and the notes thereto for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and the consolidated financial position of the Group at December 31, 2018 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

Key Audit Matters

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

Estimate of credit impairment losses from Financial assets at amortised cost

Description

The Group's portfolio of loans and advances to customers at amortized cost stood at €1,733,328 thousand at December 31, 2018, while the associated impairment allowances amounted to €72,665 thousand (refer to note 12.3 of the accompanying consolidated financial statements). Measurement of the impairment of loans and advances to customers involves significant and complex estimation.

The main change implied by IFRS 9 *Financial instruments*, which took effect on January 1, 2018, is the switch to an expected loss model when estimating impairment due to credit risk. The Group has estimated the effects of applying the new standard for the first time (refer to note 2.2.2 of the accompanying consolidated financial standards).

Note 3.7 of the accompanying consolidated financial statements details the principles and criteria used by the Group to estimate those impairment allowances, which are estimated individually or collectively.

The valuation methods used to estimate the impairment allowances entail a significant element of judgment which involves decisions such as classifying the transactions as a function of their risk; identifying and classifying impaired exposures; determining when there has been a significant increase in credit risk; determining the fair value of the associated collateral; and, in the case of impairment allowances estimated individually, assessing the borrowers' ability to meet its debt obligations, incorporating forward-looking information. Against this backdrop, for the allowances assessed collectively, the Group uses a credit risk impairment loss estimation model that relies on Bank of Spain information for the sector; for allowances estimated individually, it uses specific calculation methodologies.

For all of the reasons given above, we deemed the estimation of impairment allowances on loans and advances to customers on account of credit risk to be one of our key audit matters.

Our response

Our focus on the audit has included the analysis and evaluation of the internal control environment linked to the process of estimating impairment losses due to credit risk (provisions) as well as the execution of tests of details on those provisions, both for those estimated individually and those estimated collectively.

Our procedures related to the analysis of and evaluation of the internal control environment have been focused on the execution of the following processes, amongst others:

- ☐Verifying whether the various policies and procedures meet the applicable regulatory requirements.
- Reviewing the procedures established in the loan grant processes to assess the collectability of the loans and advances on the basis of the borrowers' ability to pay and financial information.

- Reviewing the procedures established for the purpose of regularly monitoring exposures, mainly those related with (i) the updating of the financial information and regular reviews of the borrower file; and (ii) the monitoring alerts set by the Group in order to identify assets requiring special monitoring or impairment.
- Evaluating the design of the relevant controls in place for managing and valuing the collateral and guarantees related to credit transactions.

We also performed substantive procedures, consisting mainly of:

- ☐With respect to the impairment allowances estimated individually, we reviewed a sample of files to check their correct classification and the assumptions used by the Group's Management to identify and quantify the allowances, including the assumptions regarding the financial situation of the borrower, the future cash flow projections and the valuations ascribed to the collateral.
- As for the impairment allowances estimated collectively, we checked the calculation methods used and the segmentation and correct classification of the transactions by verifying certain fields included in the databases for a sample of loan transactions.
- We recalculated the credit risk losses estimated collectively, replicating a model that relies on the information the Bank of Spain has for the Spanish banking sector.

Automated financial reporting systems

Description

The continuity of the Group's business processes is highly dependent on its IT infrastructure. Access privileges to the various information systems are granted to employees so they can perform and fulfil their duties. These privileges are relevant, since they are designed to ensure that changes in applications are authorised, monitored and implemented appropriately and constitute key controls for mitigating the potential risk of fraud or error caused by such changes in applications.

Our response

In the scope of our audit, we evaluated the general controls over the key information systems for financial reporting. Our work consisted mainly of assessing the most relevant general systems of access controls, change management and applications development, and their security, as well as the most relevant application controls established in the key processes for financial reporting, with the involvement of our IT specialists.

Other information: consolidated management report

Other information refers exclusively to the 2018 consolidated management report, the preparation of which is the responsibility of the Parent company’s directors and is not an integral part of the consolidated financial statements.

Our opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility respects the Consolidated Management Report, in conformity with the requirements of the rules over the account auditing, consists in evaluating and informing about the accordance between the Consolidated Management Report and the Consolidated Financial Statements, based on the knowledge of the Group acquired during the audit process of the previously mentioned accounts, excluding information different to that obtained as evidence. In addition, our responsibility consists on evaluating and informing on whether the content and presentation of the Consolidated Management Report are consistent with the applying regulation. If, based on the work we have completed, we conclude there exist material inaccuracies, we are obliged to report them.

Based on the work performed, as described in the above paragraph, the information included in the consolidated management report agrees with that included in the 2018 consolidated financial statements and their content and presentation comply with the applicable regulations.

Responsibilities of the Parent company's directors and the audit commission for the consolidated financial statements

The directors of the Parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit commission is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these consolidated financial statements.

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

- ☐Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Parent company's directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the audit and compliance commission of the Parent company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

Report on other legal and regulatory requirements

Additional report to the audit commission

The opinion expressed in this audit report is consistent with the additional report we issued to the audit and compliance committee on April 12, 2019.

Term of engagement

The ordinary general shareholders' meeting held on June 29, 2018, we were appointed as the Group's auditors for a period of one year for the annual period beginning on January 1, 2018.

Previously, we were appointed as auditors by the ordinary general shareholders' meeting for one year and we have been carrying out the audit of the consolidated financial statements continuously since the year ended on December 31, 1990.

ERNST & YOUNG, S.L.
(Registered in the Official Register of Auditors under No. S0530)

(Signed on the original in Spanish)

Héctor Martín Díaz
(Registered in the Official Register of Auditors under No. 21679)

April 12, 2019

BANCO CAMINOS, S.A. AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED MANAGEMENT REPORT 2018

Translation of consolidated financial statements and consolidated management report originally issued in Spanish.
In the event of a discrepancy, the Spanish-language version prevails (See Note 30)

BANCO CAMINOS, S.A. AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

CONSOLIDATED FINANCIAL STATEMENTS 2018

Translation of consolidated financial statements and consolidated management report originally issued in Spanish.
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Consolidated balance sheet
2018

BANCO CAMINOS, S.A.
AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

BANCO CAMINOS, S.A. AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

Consolidated Balance Sheet as of December 31

ASSETS	Note	Thousands of euros 2018	2017 (*)
Cash, cash balances at central banks and other demand deposits	**8**	**239,451**	**220,162**
Financial assets held for trading	**9**	**1,222**	**2,178**
Derivatives		341	567
Equity instruments		248	1,072
Debt securities		633	539
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		-	-
Non-trading financial assets mandatorily at fair value through profit or loss	**10**	**69,879**	**-**
Equity instruments		36,498	-
Debt securities		33,381	-
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		*2,036*	-
Financial assets designated at fair value through profit or loss		**-**	**-**
Debt securities		-	-
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		-	-
Financial assets at fair value through other comprehensive income	**11**	**1,164,052**	**1,231,950**
Equity instruments		811	43,033
Debt securities		1,163,241	1,188,917
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or advanced as collateral with right to sell or pledge		*700,749*	*727,006*
Financial assets at amortised cost	**12**	**1,819,309**	**1,636,143**
Debt instruments		141,516	112,456
Loans and advances		1,677,793	1,523,687
Central Banks		-	-
Credit institutions		17,130	-
Customers		1,660,663	1,523,687
Memorandum item: loaned or advanced as collateral with right to sell or pledge		*121,641*	*72,049*
Derivatives – Hedge accounting	**13**	**1,607**	**-**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Investments in joint ventures and associates	**15**	**-**	**-**
Jointly-controlled entities		-	-
Associates		-	-
Assets under insurance contracts		**-**	**-**
Tangible assets	**16**	**49,132**	**51,788**
Property, plant and equipment		43,619	43,821
For own use		43,619	43,821
Leased out under an operating lease		-	-
Assigned to welfare projects (saving banks and credit cooperatives)		-	-
Investment property		5,513	7,967
Of which: assigned under operating leases		*5,513*	-
Memorandum item: acquired in financial leasing		-	-
Intangible assets	**17**	**9,810**	**10,216**
Goodwill		4,589	4,625
Other intangible assets		5,221	5,591
Tax assets	**24**	**34,319**	**33,004**
Current tax assets		6,615	5,002
Deferred tax assets		27,704	28,002
Other assets	**20**	**1,934**	**9,314**
Insurance contracts linked to pensions		-	-
Inventories		-	-
Other		1,934	9,314
Non-current assets and disposal groups classified as held for sale	**14**	**9,784**	**10,484**
TOTAL ASSETS		**3,400,499**	**3,205,239**

(*) Presented only and exclusively, for comparative purposes (Note 2.2)

BANCO CAMINOS, S.A. AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

Consolidated Balance Sheet as of December 31

LIABILITIES	Note	Thousands of euros 2018	2017 (*)
Financial liabilities held for trading		**-**	**-**
Derivatives		-	-
Short positions		-	-
Deposits		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss		**-**	**-**
Deposits		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Memorandum item: subordinated liabilities		-	-
Financial liabilities measured at amortised cost	**18**	**3,128,346**	**2,939,288**
Deposits		3,095,560	2,899,496
Central Banks		318,966	320,295
Credit institutions		55,142	42,705
Customers		2,721,452	2,536,496
Debt securities issued		-	-
Other financial liabilities		32,786	39,792
Memorandum item: subordinated liabilities		-	-
Derivatives – Hedge accounting	**13**	**1,641**	**-**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**-**	**-**
Liabilities under insurance contracts		**-**	**-**
Provisions	**19**	**11,084**	**11,319**
Pensions and other post-employment defined benefit obligations		202	193
Other long-term employee benefits		-	-
Pending legal issues and tax litigation		2,300	2,936
Commitments and guarantees given		5,289	5,716
Other provisions		3,293	2,474
Tax liabilities	**24**	**12,035**	**13,215**
Current tax liabilities		4,949	2,284
Deferred tax liabilities		7,086	10,931
Share capital repayable on demand		**-**	**-**
Other liabilities	**20**	**6,001**	**6,041**
Of which: Welfare Fund (only saving banks and credit cooperatives)		-	-
Liabilities included in disposal groups classified as held for sale		**-**	**-**
TOTAL LIABILITIES		**3,159,107**	**2,969,863**

(*) Presented only and exclusively, for comparative purposes (Note 2.2)

BANCO CAMINOS, S.A. AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

Consolidated Balance Sheet as of December 31

EQUITY	Note	Thousands of euros 2018	2017 (*)
Own funds		**205,619**	**193,423**
Capital	21.1	27,491	27,491
Paid up capital		27,491	27,491
Unpaid capital which has been called up		-	-
Memorandum item: Uncalled capital		-	-
Share Premium	21.2	29,033	29,033
Equity instruments issued other than capital		-	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity		-	-
Retained earnings	21.2	138,358	124,955
Revaluation reserves		-	-
Other reserves	21.2	-	-
Reserves or accumulated losses of investments in joint ventures and associates		-	-
Other		-	-
(-) Treasury shares	21.1	(604)	(368)
Profit or loss attributable to owners of the Parent	21.3	11,341	12,312
(-) Interim dividends		-	-
Accumulated other comprehensive income		**16,163**	**22,760**
Items that will not be reclassified to profit or loss		-	54
Actuarial gains or (-) losses on defined benefit pension plans		-	-
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Accumulated changes in fair value of equity instruments measured at fair value through other comprehensive income	21.4	-	54
Accumulated hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		-	-
Accumulated change in fair value changes of a financial liability at fair value through profit or loss that is attributable to changes in the credit risk of that liability		-	-
Items that may be reclassified to profit or loss	21.4	16,163	22,706
Hedge of net investments in foreign operations [effective portion]		-	-
Foreign currency translation		-	-
Hedging derivatives, Cash flow hedges reserve [effective portion]		-	-
Fair value changes of debt instruments measured at fair value through other comprehensive income		16,163	22,706
Hedging instruments [not designated elements]		-	-
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Minority interests [Non-controlling interests]	**21.5**	**19,610**	**19,193**
Accumulated Other Comprehensive Income		-	-
Other items		19,610	19,193
TOTAL EQUITY		**241,392**	**235,376**
TOTAL EQUITY AND TOTAL LIABILITIES		**3,400,499**	**3,205,239**
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS			
Loan commitments given	*23.1*	*225,645*	*243,466*
Financial guarantees given	*23.2*	*19,751*	*39,913*
Contingent commitments given	*23.3*	*43,318*	*25,806*

(*) Presented only and exclusively, for comparative purposes (Note 2.2)

Consolidated income statement

BANCO CAMINOS, S.A.
AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

BANCO CAMINOS, S.A. AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

Consolidated Income Statement for the year ended December 31

	Note	Thousands of euros 2018	2017 (*)
Interest income	25.1	54,081	57,128
Financial assets at fair value through other comprehensive income		16,652	22,261
Financial assets at amortised cost		35,376	33,120
Other interest income		2,053	1,747
(Interest expenses)	25.1	(7,752)	(10,373)
(Expenses on share capital repayable on demand)		-	-
A) NET INTEREST INCOME		**46,329**	**46,755**
Dividend income		235	344
Share of profit/(loss) of companies accounted for using the equity method		-	-
Fee and commission income	25.2	14,395	14,453
(Fee and commission expenses)	25.2	(4,367)	(3,253)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	25.1	(273)	7,980
Financial assets at amortised cost		-	-
Other financial assets and liabilities		(273)	7,980
Gains or (-) losses on financial assets and liabilities held for trading, net	25.1	288	407
Reclassification of financial assets out of measured at fair value through other comprehensive income		-	-
Reclassification of financial assets out of measured at amortised cost		-	265
Other gains or (-) losses		288	142
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		(559)	-
Reclassification of financial assets out of measured at fair value through other comprehensive income		-	-
Reclassification of financial assets out of measured at amortised cost		-	-
Other gains or (-) losses		(559)	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	25.1	-	80
Gains or (-) losses from hedge accounting, net	25.1	-	-
Exchange differences [gain or (-) loss], net		233	(171)
Other operating income	25,3	4,540	4,847
(Other operating expenses)	25.3	(2,858)	(3,404)
Of which: Mandatory provisions to welfare fund (only savings banks and credit cooperatives)		-	-
Income of assets under insurance and reinsurance contracts		-	-
(Expenses of liabilities under insurance or reinsurance contracts)		-	-
B) GROSS INCOME		**57,963**	**68,038**
(Administrative expenses)		(42,752)	(39,476)
(Staff expenses)	25.4	(23,813)	(19,860)
(Other administrative expenses)	25.5	(18,939)	(19,616)
(Depreciation)	16 / 17	(2,098)	(2,113)
(Provisions or (-) reversal of provisions)	19	(2,191)	(5,203)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)		6,445	(467)
(Financial assets at fair value through other comprehensive income)	11.3	(507)	(1,290)
(Financial assets at amortised cost)	12.4	6,952	823
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		-	-
(Impairment or (-) reversal of impairment on non-financial assets)		(226)	(3,731)
(Tangible assets)	16	17	(3,081)
(Intangible assets)		-	-
(Other)		(243)	(650)
Profit or (-) loss on the derecognition of nonfinancial assets and investments, net		143	-
Negative goodwill recognised in profit or loss		-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	14	318	576
C) PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS		**17,602**	**17,624**
(Tax expense or (-) income related to profit or loss from continuing operations)	24	(5,113)	(4,566)
D) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**12,489**	**13,058**
Profit or (-) loss after tax from discontinued operations		-	-
E) PROFIT OR (-) LOSS		**12,489**	**13,058**
Attributable to minority interest (non-controlling interests)		1,148	746
Attributable to owners of the Parent		11,341	12,312

(*) Presented only and exclusively, for comparative purposes (Note 2.2)

Consolidated statement of changes in equity

BANCO CAMINOS, S.A.
AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

BANCO CAMINOS, S.A. AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

Statement of recognized income and expense at December 31 (Note 3.21)

I. Consolidated statement of recognised income and expense at December 31

	Thousands of euros	
	2018	**2017(*)**
Profit or (-) loss	**12,489**	**13,058**
Other comprehensive income	**(7,613)**	**1,285**
Items that will not be reclassified to profit or loss	**-**	**-**
Actuarial gains or (-) losses on defined benefit pension plans	-	-
Non-current assets and disposal groups held for sale	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Amount of change in fair value of a financial liability at fair value through profit or loss that is attributable to changes in the credit risk of that liability	-	-
Income tax relating to items that will not be reclassified	-	-
Items that may be reclassified to profit or loss	**(7,613)**	**1,285**
Hedge of net investments in foreign operations [effective portion]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	-	-
Translation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges [effective portion]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Transferred to initial carrying number of hedged items	-	-
Other reclassifications	-	-
Hedging instruments [not designated elements]	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Financial assets at fair value through other comprehensive income	(10,875)	1,835
Valuation gains or (-) losses taken to equity	*(11,148)*	*3,015*
Transferred to profit or loss	*273*	*(1,180)*
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of Investments in joint ventures and associates	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	3,262	(550)
Total comprehensive income	**4,876**	**14,343**
Attributable to minority interest [Non-controlling interest]	1,148	746
Attributable to owners of the Parent	3,728	13,597

(*) Presented only and exclusively, for comparative purposes (Note 2.2)

BANCO CAMINOS, S.A. AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

Consolidated statement of total changes in equity at December 31, 2018 (Note 3.21)

II. Consolidated statement of changes in equity

Thousands of euros

Sources of equity changes	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the Parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Accumulated Other Comprehensive Income	Other items	Total
Opening balance at 31 December 2017 [before the restatement]	27,491	29,033	-	-	124,955	-	-	(368)	12,312	-	22,760	-	19,193	235,376
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	689	-	-	-	-	-	1,016	-	-	1,705
Opening balance [2018]	27,491	29,033	-	-	125,644	-	-	(368)	12,312	-	23,776	-	19,193	237,081
Comprehensive accumulated income	-	-	-	-	-	-	-	-	11,341	-	(7,613)	-	1,148	4,876
Other changes in equity	-	-	-	-	12,714	-	-	(236)	(12,312)	-	-	-	(731)	(565)
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	(4,865)	-	-	-	-	-	(4,865)
Sale or cancellation of treasury shares	-	-	-	-	27	-	-	4,629	-	-	-	-	-	4,656
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	12,312	-	-		(12,312)	-	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	375	-	-	-	-	-	-	-	(731)	(356)
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2018	27,491	29,033	-	-	138,358	-	-	(604)	11,341	-	16,163	-	19,610	241,392

BANCO CAMINOS, S.A. AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

Consolidated statement of total changes in equity at December 31, 2017 (Note 3.21)

II. Consolidated statement of changes in equity

	Thousands of euros													
Sources of equity changes (*)	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the Parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Accumulated Other Comprehensive Income	Other items	Total
Opening balance at 31 December 2016	27,491	29,033	-	-	116,343	-	91	(422)	10,572	-	21,469	6	19,862	224,445
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [2017]	27,491	29,033	-	-	116,343	-	91	(422)	10,572	-	21,469	6	19,862	224,445
Comprehensive accumulated income	-	-	-	-	-	-	-	-	12,312	-	1,291	(6)	746	14,343
Other changes in equity	-	-	-	-	8,612	-	(91)	54	(10,572)	-	-	-	(1,415)	(3,412)
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	(56)	-	-	-	-	-	(56)
Sale or cancellation of treasury shares	-	-	-	-	22	-	-	110	-	-	-	-	-	132
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	10,663	-	(91)		(10,572)	-	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other increase or (-) decrease in equity	-	-	-	-	(2,073)	-	-	-	-	-	-	-	(1,415)	(3,488)
Of which: discretionary provision to welfare funds (only saving banks and credit cooperatives)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance at 31 December 2017	27,491	29,033	-	-	124,955	-	-	(368)	12,312	-	22,760	-	19,193	235,376

(*) Presented only and exclusively, for comparative purposes (Note 2.2)

Consolidated cash flow statement for the year ended December 31, 2018

**BANCO CAMINOS, S.A.
AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP**

BANCO CAMINOS, S.A. AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

Consolidated Statement of Cash Flows for the year ended December 31

	Thousands of euros	
	2018	**2017 (*)**
A) CASH FLOWS USED IN OPERATING ACTIVITIES	**18,908**	**76,383**
Consolidated profit/(loss)	**12,489**	**13,058**
Adjustments made to obtain the cash flows from operating activities	**1,186**	**619**
Depreciation and amortisation	2,098	2,113
Other	(912)	(1,494)
Net increase/(decrease) in operating assets	**(180,350)**	**(109,121)**
Financial assets held for trading	956	10,178
Non-trading financial assets mandatorily at fair value through profit or loss	5	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	33,382	59,671
Financial assets at amortised cost	(220,466)	(171,057)
Other operating assets	5,773	(7,913)
Net increase/(decrease) in operating liabilities	**190,247**	**182,399**
Financial liabilities held for trading	-	-
Other financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortised cost	189,058	181,975
Other operating liabilities	1,189	424
Income tax receipts/(payments)	**(4,664)**	**(10,572)**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**1,321**	**(961)**
Payments	**(1,770)**	**(3,945)**
Tangible assets	(1,462)	(3,796)
Intangible assets	(308)	(149)
Investments in joint ventures and associates	-	-
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	-	-
Other payments related to investing activities	-	-
Proceeds	**3,091**	**2,984**
Tangible assets	2,751	-
Intangible assets	-	-
Investments in joint ventures and associates	-	773
Subsidiaries and other business units	-	-
Non-current assets held for sale and associated liabilities	340	1,376
Other proceeds related to investing activities	-	835
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(940)**	**(1,339)**
Payments	**(5,596)**	**(1,471)**
Dividends	-	-
Subordinated liabilities	-	-
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	(4,865)	(56)
Other payments related to financing activities	(731)	(1,415)
Proceeds	**4,656**	**132**
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	4,656	132
Other proceeds related to financing activities	-	-
D) EFFECT OF EXCHANGE RATE DIFFERENCES	**-**	**-**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**19,289**	**74,083**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**220,162**	**146,079**
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**239,451**	**220,162**
MEMORANDUM ITEM: COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Of which: in the possession of Group entities but restricted to the Group	-	-
Cash	*1,402*	*1,315*
Cash equivalents at central banks	*210,641*	*174,092*
Other demand deposits	*27,408*	*44,755*
Less: Bank overdrafts refundable on demand	-	-

(*) Presented only and exclusively, for comparative purposes (Note 2.2)

Notes to the consolidated financial statements

BANCO CAMINOS, S.A.
AND SUBSIDIARIES COMPOSING THE BANCO CAMINOS GROUP

1. BACKGROUND

1.1 Activity and line of business of the Parent's entity

Banco Caminos, S.A. (hereinafter, the Parent, Entity or Bank) is a savings and credit cooperative which was created on February 2, 1977 under the name Caja de Crédito del Colegio de Ingenieros de Caminos, Canales y Puertos Sociedad Cooperativa. On June 18, 1990 its current name was adopted as per the agreement approved by the Entity's General Ordinary and Extraordinary Assembly.

At the Extraordinary General Assembly held on June 29, 2007, the shareholders approved:

- The formal agreement by virtue of which Caja Caminos, Sociedad Cooperativa would be transformed from a Cooperative to a private limited company (a Bank), taking on the name of Banco Caminos, S.A. and completely modifying its corporate bylaws.

- The Entity's capital was increased by 141,584 shares as per the following breakdown:

Recipients:	Shares
All partners	33,370
Partners holding Series C shares	79,898
Personnel and directors	28,316
TOTAL	141,584

- The Entity moved its registered office to Calle Almagro, 8 in Madrid.

The shares were issued with respective nominal values and share premiums of €60.11 and €120.22 per share, representing a capital increase of €8,511 thousand and a share premium of €17,021 thousand. The subscription period for the capital increase was July 15, 2007 through October 15, 2007; the latter date being the payment date.

On October 15, 2007 the capital increase, fully subscribed and paid up, was taken to public deed. Following the capital increase described above, the Entity's share capital stood at €21,132 thousand, represented by a total of 351,553 shares.

The prior agreements were ratified by public deed on February 8, 2008, including the following information:

- The transformation of Caja Caminos, Sociedad Cooperativa de Crédito from a cooperative to a private limited company (a bank) has not affected its legal status.

- Share capital was fully subscribed and paid up and former shares had been duly cancelled. The Entity's shareholders received one new share for each old share they had held. To maintain the same proportion, the Entity's share capital, as of the aforementioned date, was represented by 351,533 registered shares with a nominal value of €60.11 each.

- The Entity's equity capital is sufficient to maintain its capital adequacy ratio.

- The conversion agreement was authorized by the Directorate General of the Treasury and Financial Policy on November 30, 2007.

- The obligatory reserve fund of €7,250 thousand (as per the balance sheets approved at June 28, 2007 and February 7, 2008) was transferred to the "Almagro Sociedad Cooperativa de Consumidores y Usuarios" as approved by the shareholders at the Extraordinary General Assembly (Note 21.1).

Caja Caminos, Sociedad Cooperativa de Crédito was officially removed from the Register of Savings and Credit Cooperatives on February 25, 2008, under class number 1429-SMT, given that the Parent Entity was converted into a private limited company named Banco Caminos, S.A.

On March 10, 2008, following the filing of the related public deed with the Mercantile Register, Banco Caminos, S.A. was officially registered with the Register of Banks and Bankers under entry 0234 and tax identification number A28520666.

Subsequently, in 2009, 2010, and 2011, changes were made in the Entity's share capital (Note 21.1).

The Entity generally engages in receiving funds from the public in the form of deposits, loans, financial assets under repurchase agreements or other similar instruments which entail repayment obligations, and uses said funds to grant loans, credit facilities and other similar operations to serve the financial needs of customers. Thus, it may carry out all the types of asset, liability and service operations that other credit entities are entitled to perform. Although the Entity's operations are carried out primarily throughout Spain, it may also legally perform them abroad.

The Parent´s registered address is Almagro, 8, Madrid, and it develops its business through two branches in Madrid and one in Barcelona employing 130 people (2017: 102 people).

At December 31, 2017 and 2018, the Entity was subject to the general regulations governing the activity of credit institutions.

The Parent performs its business activity under the name of Banco Caminos, S.A. and is governed by the bylaws approved at the Extraordinary General Assembly (June 29, 2007), as subsequently amended, and the criteria set forth in the Spanish Corporate Enterprises Act and other applicable legal provisions.

The Entity is subject to legislation regulating the following matters, among others:

- Maintenance of a minimum level of funds in the central national bank of a euro country to cover the cash adequacy ratio.

- Maintenance of a minimum level of equity. Prevailing legislation stipulates that said institutions must maintain sufficient equity to cover assumed risks. Compliance with minimum equity requirements is carried out at the consolidated level.

- Annual contribution to the Deposit Guarantee Fund, which serves, aside from the Entity's equity, as an additional guarantee to creditors to cover up to €100,000 in customer deposits.

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

The Board of Directors of Banco Caminos, S.A., Parent of the Group, authorized these consolidated financial statements for issue at a meeting held on March 27, 2019, as witnessed by the director signatures on the last page. The consolidated financial statements are currently pending approval by the shareholders in general meeting and it is expected that they will be approved without significant changes. The shareholders approved the 2017 consolidated financial statements of Banco Caminos in General Meeting on June 29, 2018.

1.2 Banco Caminos Group

The Banco Caminos Group (here in after the Group) comprises Banco Caminos, S.A. and its subgroups which form a consolidated group as per prevailing legal provisions.

The following table shows the entities that, as of December 31, 2018, compose the consolidated Group, indicating their current registered address, activity and percentage held by the Parent.

Banco Caminos Group entities:

Company	Location	Business activity	Ownership interest Direct	Indirect	Auditor
Bancofar, S.A.	C/ Fortuny, 51. Madrid	Credit institution	81.38%	-	Ernst & Young
Corporación Banco Caminos, S.L.U.	C/ Almagro, 8. Madrid	Securities holding	100.00%	-	Ernst & Young
FAM Caminos, S.A. (*)	C/ Almagro, 42 Madrid	Insurance broker	-	80.00%	Eudita AH Auditores 1986
Gabinete de Estudio y Gestión Jurídica, S.A. (*)	C/ Almagro, 8. Madrid	Asset acquisition, management and sale	64.76%	35.24%	Eudita AH Auditores 1986
Gefonsa, S.V., S.A.U. (*)	C/ Fernando el Santo, 3. Madrid	Broker dealer	-	100.00%	Ernst & Young
Gespensión Caminos, E.G.F.P., S.A.U. (*)	C/ Fernando el Santo, 3. Madrid	Pension Fund Management	-	100.00%	Eudita AH Auditores 1986
Gestifonsa, S.G.I.I.C., S.A.U. (*)	C/ Almagro, 8. Madrid	UCITS management	-	100.00%	Eudita AH Auditores 1986
Maxlan, S.A.U.	C/ Almagro, 8. Madrid	Land development, management, purchase and sale	100.00%	-	Eudita AH Auditores 1986
Servifonsa, A.I.E. (*)	C/ Almagro, 8. Madrid	Administrative, financial and accounting services	87.27%	12.73%	Ernst & Young
Sistemcam, S.A.U. (*)	C/ Almagro, 8. Madrid	IT Services	-	100.00%	Eudita AH Auditores 1986

(*) Indirect equity investments held through Corporación Banco Caminos, S.L.U.

All of these companies have been fully consolidated through the global methods in the accompanying financial statements.

The fiscal year for all of the companies coincides with the calendar year.

The breakdown of the capital and reserves and acquisition cost of the companies included in the consolidation process, as of December 31, 2018, is as follows:

	Thousands of euros				
Company	Nominal value	Equity	Retained earnings	Other equity	Carrying amount
Bancofar, S.A.	61,223	99,167	3,593	95,574	43,150
Corporación Banco Caminos, S.L.U.	30,000	34,742	725	34,017	30,000
FAM Caminos, S.A.	481	5,720	817	4,903	5,384
Gabinete de Estudio y Gestión Jurídica, S.A.	16,098	29,903	15	29,888	24,874
Gefonsa, S.V., S.A.U.	4,214	8,587	61	8,526	3,585
Gespensión Caminos, E.G.F.P., S.A.U.	6,972	11,946	635	11,311	9,203
Gestifonsa, S.G.I.I.C., S.A.U.	601	4,253	758	3,495	694
Maxlan, S.A.U.	13,226	14,859	161	14,698	14,522
Servifonsa, A.I.E.	250	250	-	250	250
Sistemcam, S.A.U.	601	1,285	89	1,196	602

The data for the Group's subsidiaries and associates for the exercise 2017 is provided in Appendix I.

The Group is comprised of a group of financial and non-financial entities which, together with other entities, form a group whose objective is to offer a wide variety of specialized products and services to customers.

Note 15 outlines the most significant changes in the Parent's investments in Group companies during exercises 2018 and 2017.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of presentation of the consolidated financial statements

The consolidated financial statements of the Group have been prepared from the accounting records of the entities which comprise it in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) in order to give a true and fair view of the equity, financial position and results of the Group as of December 31, 2018, in addition to changes in equity and cash flows for the year then ended. The valuation principles and criteria are described in Note 3. All obligatory accounting principles and criteria with a significant effect on the preparation of the consolidated financial statements were applied.

In the same way, on December 6, 2017, Bank of Spain Circular 4/2017 was published, from November 27, for credit institutions, concerning public and classified financial information standards and financial statement models (from now on, "Circular 4/2017"), with entry into force January the 1, 2018 (even though, it should be considered what has been stablished in its transitional provisions), which replaces Bank of Spain Circular 4/2004, from December 22, for credit institutions, concerning public and classified financial information standards and financial statement models (from now on, "Circular 4/2004"), which was repealed. The goal is to adapt the accounting Spanish credit institutions regime to European regulation changes resulted from the NIIF 15 and NIIF 9 adoption.

In this sense, the Group consolidated annual accounts corresponding to the financial year 2018 are presented in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and also considering Circular 4/2017 and its subsequent amendments which comprises the development and adaptation to the Spanish credit institutions sector of the International Financial Reporting Standards approved by the European Union.

These Group consolidated annual accounts have been prepared from the accounting records kept by the bank and the remaining entities integrated in the Group. However, since the bank's accounting principles and the valuation criteria applied in the preparation of such consolidated annual accounts could differ from the ones applied by one of the entities integrated in the Group, necessary adjustments and reclassifications have been introduced in the consolidation process to standardize the mentioned principles with each other, as well as to adequate them to the NIIF-EU applied by the bank.

2.2 Comparative information

For comparative purposes, the Parent Entity's directors have included for each of the figures disclosed in the accompanying consolidated financial statements, in addition to the figures for 2018, those corresponding to 2017. The information provided in these consolidated financial statements in respect of 2017 is presented solely to allow the reader to compare the figures with those of 2018 and accordingly does not constitute the Parent Entity's 2017 consolidated financial statements.

In accordance with Note 2.2.2, balance sheet consolidated comparative models, profit and loss account, statement of recognized income and expense, statement of total changes in equity and consolidated statement of cash flow have been modified to adapt them to the regulatory changes introduced by IFRS 9 and IFRS 15, and the new financial statement models included in the Bank of Spain Circular 4/2017. Consequently, it ought to be considered that such differ from the ones included in the consolidated annual accounts corresponding to the financial year ended on December 31, 2017.

Anex II presents the bank's financial statements, corresponding to financial year ended on December 31, 2018, as well as, the information exclusively for comparative purposes, referred to financial year 2017, from which it has to be considered that balance sheet consolidated comparative models, profit and loss account, statement of recognized income and expense, statement of total changes in equity and consolidated statement of cash flow have also been modified to adapt them to the regulatory changes introduced and thus, differed from the ones included in the annual accounts correspondent to the financial year ended on December 31, 2017.

2.2.1. Main regulatory changes occurred from the period between January, 1, 2018 and December 31, 2018

A) *New mandatory standards, amendments and interpretations applicable in the calendar year beginning January 1, 2018 approved by the European Union.*

Following is a list of the main mandatory standards, amendments or interpretations endorsed by the European Union with mandatory application in the annual year began on or after January 1, 2018. Therefore, they have been applied in the preparation of these dated financial statements.

- IFRS 9 "Financial instruments"

  [Effective for annual periods beginning on or after January 1, 2018, with early adoption permitted]

  The impacts of applying this standard for the first time are described in Note 2.2.2 below.

- Amendment to IFRS 7 "Financial instruments: disclosures"

  [Effective for annual periods beginning on or after January 1, 2018, with early adoption permitted]

  The amendments introduce new disclosure requirements for financial instruments in periods in which IFRS 9 is first applied.

This standard resulted in the inclusion of the related disclosures on financial instruments. Among the additional disclosures are those related to hedging accounting, which are mandatory for entities, including those electing the option of IFRS 9 to continue applying hedge accounting under the requirements of IAS 39. In this respect, changes in the standard were applied in the current year, maintaining the disclosures applicable to the previous period for the purposes of the comparative information period.

- IFRS 15 “Revenue recognition”

  [Effective for annual periods beginning on or after January 1, 2018, with early adoption permitted]

  The core principle of IFRS 15 is that a company should recognise revenue to depict the transfer of promised goods or services to the consumer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services.

  An entity recognises revenue in accordance with this core principle by applying five steps, which can be summarised as follows: identify the contract(s) with the customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price; and recognise revenue when a performance obligation is satisfied.

  IFRS 15 includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

  The standard did not have a significant effect on the accompanying consolidated financial statements or the disclosures therein.

- Amendments to IAS 40: “Investment property”

  [Effective for annual periods beginning on or after January 1, 2018]

  The purpose of the amendments is to clarify the requirements on transfers to, or from, investment property. IAS 40 is amended to specify that a transfer to, or from, investment property may be made when, and only when, there is a change in use and this change in use implies an assessment of whether the property meets the definition of investment property.

  The standard did not have a significant effect on the accompanying condensed consolidated interim financial statements or the disclosures therein.

- Amendments to IFRS 2: “Classification and measurement of share-based payment transactions”

  [Effective for annual periods beginning on or after January 1, 2018, with early adoption permitted]

The objective of this project is to clarify how to account for certain share-based payment transactions. The standard has not had a significant impact on these consolidated annual accounts.

- Amendments to IFRS 4: Applying IFRS 9 “Financial instruments” with IFRS 4 “Insurance contracts”

  [Effective for annual periods beginning on or after January 1, 2018]

  The objective of these amendments is to provide entities that issue insurance contracts under the scope of IFRS 4 two approaches:

- Overlay approach: permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from accounting mismatches and temporary volatility that may arise from applying IFRS 9 prior to applying the new standard for insurance contracts.

- Deferral approach: An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts to defer the effective date of IFRS 9 until 2021. The IFRS 9 deferral option for insurance companies until 2021 will expire in 2020 if the IASB issues the new insurance contracts standard with an effective date of 2020.

  The standard did not have a significant effect on the accompanying consolidated financial statements or the disclosures therein.

- Annual “Improvements to IFRS” project (cycle 2014-2016)

  [Effective for annual periods beginning on or after January 1, 2018 (IFRS 1 and IAS 28)]

  The improvements affect IFRS 1 “First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters”; and IAS 28 “Investments in Associates and Joint Ventures: Measuring an associate or joint venture at fair value”.

  The standard did not have a significant effect on the accompanying condensed consolidated interim financial statements or the disclosures therein.

- Clarification to IFRS 15: “Revenue from contracts with customers”

  [Effective for annual periods beginning on or after January 1, 2018]

  The clarifications to IFRS 15 are intended to reduce the cost and complexity of applying the standard and clarify how certain principles must be applied to identify performance obligations, determine whether the company is principal or agent, and determine if the product of the concession should be recognised at a point in time or over time.

  The standard did not have a significant effect on the accompanying consolidated financial statements or the disclosures therein.

- IFRIC Interpretation 22 “Foreign currency transactions and advance consideration”

  [Effective for annual periods beginning on or after January 1, 2018, with early adoption permitted]

  The objective is to establish the date of the transaction for the purpose of determining which exchange rate to use on initial recognition of the asset, the expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency transaction.

  The standard did not have a significant effect on the accompanying consolidated financial statements or the disclosures therein.

B) *New standards, amendments and interpretations with mandatory application in financial statement of the year that began on January, 1 2019 and forward, approved by European Union*

Following is a list of the main mandatory standards, amendments or interpretations by the International Accounting Standards Board (“IASB”) and endorsed by the European Union with mandatory application for annual periods beginning after January 1, 2018. Therefore, they have not been applied in the preparation of these consolidated financial statements, except for those relative to the amendment of IFRS 9.

- Amendment to IFRS 9: “Financial instruments”

  [Effective for annual periods beginning on or after January 1, 2019, with early adoption permitted]

  The purpose of the amendment is to allow debt instruments with negative compensation prepayment features to be measured at amortised cost or fair value through other comprehensive income rather than at fair value through profit or loss.

  The Group opted for the early adoption of the standard at January 1, 2018, along with the changes arising from the first-time application of IFRS 9 “Financial Instruments”, effective for annual periods beginning on or after January 1, 2018.

- IFRS 16: “Leases”

  [Effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities also applying IFRS 15]

  IFRS 16 was issued by the IASB in May 2017 and adopted by the European Union via Regulation (EU) 2017/1986 of October 31, 2017, and amends IFRS 1, IFRS 3, IFRS 4, IFRS 7, IFRS 9, IFRS 13 and IFRS 15, IAS 1, IAS 2, IAS 7, IAS 12, IAS 16, IAS 21, IAS 23, IAS 32, IAS 37, IAS 38, IAS 39, IAS 40 and IAS 41, IFRIC 1 and IFRIC 12, and SIC 29 and SIC 32, and repeals IAS 17, IFRIC 4, SIC 15 and SIC 27.

IFRS 16 sets out principles for the recognition, measurement, presentation and disclosure of leases. Lessor accounting is substantially unchanged from accounting under IAS 17 with the dual model, distinguishing between finance and operating leases.

For lessees, IFRS 16 eliminates the dual accounting model and develops a single model whereby the lessee is required to recognise most leases on the balance sheet similar to the accounting for finance leases under IAS 17. Lessees are required to initially recognise a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Lessees are required to recognise separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The standard includes two recognition exemptions for leases: short-term leases or leases for which the underlying asset is of low value.

Lessees are also required to remeasure the lease liability to reflect changes in lease payments from the commencement upon the occurrence of certain events (e.g. a change in the lease term, or a change in an index used to update those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Group embarked on a project in 2018 to implement IFRS 16 entailing the assessment, initial analysis, design and adaptation of systems and management.

The Group will elect to apply IFRS 16 to lease contracts in which it is the lessee retrospectively, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of reserves at the date of initial application, electing the option under the standard not to restate comparative information.

Accordingly, for leases previously classified as finance leases under the previous standard, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 will be the same, respectively, as the carrying amounts of the lease asset and lease liability at December 31, 2018 measured applying the previous standard. Subsequently, the right-of-use asset and the lease liability will be accounted for under the new requirements for leases introduced by IFRS 16.

For leases previously classified as operating leases under the previous standard, from January 1, 2019 the lessee shall recognise:

- A lease liability, measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at that date.

- A right-of-use asset, measured at an amount equal to the lease liability recognised as described in the preceding paragraph, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet at December 31, 2018.

The Group will also apply the standard to contracts identified as containing a lease applying IAS 17 and IFRIC 4 and will apply the exemptions for short-term leases or leases for which the underlying asset is of low value.

The Group estimates that this standard will not have a material impact on the consolidated financial statements of future periods. The estimation was based on assessments performed to date. However, the final impact of adaptation to the new standard could change until the Group releases its first financial statements of 2019 with the definitive impact of the first-time application given that the adaptation to systems has not been completed.

- Interpretation IFRIC 23: "Uncertainty over income tax treatments"

  [Effective for annual periods beginning on or after January 1, 2019, with early adoption permitted]

  This interpretation clarifies application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In these circumstances, the entity shall recognise and measures its current or deferred tax assets or liabilities applying the requirements of IAS 12 to taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying this interpretation.

- Amendment to IAS 28: "Investments in associates and joint ventures"

  [Effective for annual periods beginning on or after January 1, 2019, with early adoption permitted]

  The purpose of this amendment is to clarify that an entity should apply IFRS 9 "Financial instruments" in an associate or joint ventures that is not applied the equity method and that form part of the net investment.

- Amendments to IAS 19: "Plan amendment, curtailment or settlement"

  [Effective for annual periods beginning on or after January 1, 2019, with early adoption permitted]

  IAS 19 outlines how entities should account for changes defined-benefit plan, requiring remeasurement of the present value of benefit liabilities and the fair value of plan assets. Remeasurement requires the use of current assumptions to determine the current service cost and net interest on the net defined benefit liability (assets) resulting from a plan amendment.

C) New mandatory standards, amendments and interpretations applicable in the years subsequent to the calendar year beginning January 1, 2018 (applicable as of 2019) pending approval by the European Union.

- IFRS 17: "Insurance contracts"

  [Effective for annual periods beginning on or after January 1, 2021, with early adoption permitted]

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The purpose is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 replaces IFRS 4 “Insurance Contracts”.

- Annual “Improvements to IFRS” project (2015-2017 cycle)

  [Effective for annual periods beginning on or after 1 January 2019, with early adoption permitted]

  The improvements in this cycle affect IFRS 3 “Business Combinations” and IFRS 11 “Joint Arrangements - previously held interest in a joint operation”; IAS 12 “Income Taxes - income tax consequences of dividends”; and IAS 23 “Borrowing Costs - borrowing costs eligible for capitalisation”.

- Amendments to the Conceptual Framework for Financial Reporting

  [Effective for annual periods beginning on or after January 1, 2020, with early adoption permitted]

  The amendments to the conceptual framework include revised definitions of assets and liabilities, as well as new guidance on measurement and derecognition, presentation and disclosure.

- Amendments to IFRS 3 “Business Combinations”

  [Effective for annual periods beginning on or after January 1, 2020]

  The amendments clarify the definition of businesses.

- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”:

  [Effective for annual periods beginning on or after January 1, 2021]

  The amendments introduce changes to align the definition of materiality to the definition contained in the conceptual framework.

2.2.2 First-time adoption of IFRS 9

2.2.2.1 Changes to accounting principles and policies and measurement criteria

Adoption of IFRS 9 has required changes to the accounting policies and measurement criteria applicable from January 1, 2018. The accounting principles and policies and measurement criteria described in Note 2 to the Group's consolidated financial statements for the year ended December 31, 2017 have been modified by those included in Note 2 to the accompanying consolidated financial statements.

In accordance with the transitional provisions included in IFRS 9, the Group has elected not to restate comparative information. Therefore, the accounting principles and policies and measurement criteria included in Note 2 to the audited consolidated financial statements of the Group for the year ended December 31, 2017 are applicable to comparative information.

The following table summarises the main changes to accounting principles and policies and measurement criteria applied in 2018 from those applied the year before:

- Classification and measurement of financial assets. IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed on the basis of the entity's business model and their contractual cash flow characteristics to determine whether the instruments are measured systematically at amortised cost or fair value. The three new financial asset classifications allowed under IFRS 9 are:

    - Financial assets at amortised cost. Financial assets shall be classified in this category if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

    - Financial assets at fair value through other comprehensive income. Financial assets shall be classified in this category if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

    - Financial assets at fair value through profit or loss. Classification of financial assets in this category is mandatory when due to the business model for managing the financial assets or the characteristics of their contractual cash flows, they cannot be classified into either of the preceding categories.

In addition, reclassifications between portfolios are limited to changes in the business model defined by the Bank.

- Classification and measurement of financial liabilities. The classification and measurement of financial liabilities is substantially unchanged from IAS 39. However, there is a change in the treatment of fair value changes of financial liabilities designated at fair value through profit or loss which are attributable to the entity's own risk. These are presented in other comprehensive income.

- Impairment of financial assets**.** The standard marks a substantial change in the model for estimating allowances for credit risk, replacing the incurred loss approach with a forward-looking expected loss (EL) approach that includes forecasts for future economic conditions.

  EL is based on expected credit losses related to the probability of default occurring over the next 12 months, unless the credit risk has increased significantly since initial recognition, in which case the estimate should consider the probability of default over the expected life of the financial instrument. The assessment of whether there has been a significant increase in credit risk should consider reasonable and supportable information that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition, and that includes historical, current and forward-looking information.

- Hedging accounting and mitigation of risk IFRS 9 allows entities to continue to apply the hedge accounting requirements in IAS 39, even when other elements of IFRS are mandatory from January 1, 2018.

  The new standard aligns hedge accounting more closely with risk management, maintaining the three types of hedges provided in IAS 39, while expanding the possibilities for designating hedged items and hedging instruments, and simplifying the requirements for effective hedges.

- Other changes: Lastly, the following accounting principles and policies and measurement criteria have also been modified:

  - Recognition of exchange differences.

  - Interest income, interest expense, dividends and similar items

  - Consolidated statement of cash flows

2.2.2.2 Presentation of comparative information after application of IFRS 9

Although the Group has elected to apply the classification and measurement requirements of IFRS 9 prospectively, not restating prior periods, exclusively to present and facilitate comparison of the current period with the prior period after the change in regulations, in the accompanying consolidated financial statements it has modified the formats of the comparative consolidated balance sheet, income statement, statement of recognised income and expense, total statement of changes in equity and statement of cash flows. Therefore, these differ from those included in the consolidated financial statements for the year ended December 31, 2017. The Group used the new public consolidated financial statements formats provided in Circular 4/2017, of November 27, on public and confidential financial reporting rules and formats (see Note 2.2).

The main changes are as follows:

- Creation of a category of non-trading financial assets mandatorily at fair value through profit or loss.

- Replacement of the category of available-for-sale financial assets with financial assets at fair value through other comprehensive income.

- Elimination of the category of held-to-maturity investments.

- Replacement of the category of loans and receivables with financial assets at amortised cost.

- Inclusion of an increase level of disclosures in the following line items of the (consolidated) income statement: “Interest income”, “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 non-trading financial assets mandatorily at fair value through profit or loss, net”.

Below is the restated consolidated balance sheet at December 31, 2017 solely for presentation purposes for comparison with the consolidated balance sheet included in the 2017 consolidated financial statements without taking into account the effects of applying the new classification and measurement criteria of IFRS 9, which is presented later.

Balance Sheet as of 31 December 2017

	Notes		2017	Reclasific.	2017 modified
			Thousands of euros		
ASSETS					
Cash, cash balances at central banks and other demand deposits			220,162	-	220,162
Financial assets held for trading			2,178	-	2,178
Financial assets designated at fair value through profit or loss	Revomed		-	-	
Non-trading financial assets mandatorily at fair value through profit or loss	New line			-	-
Financial assets designated at fair value through profit or loss	New line			-	-
Available-for-sale financial assets	Removed	(a)	1,231,950	(1,231,950)	
Financial assets at fair value through other comprehensive income	New line	(a)		1,231,950	1,231,950
Loans and receivables	Removed	(b)	1,523,687	(1,523,687)	
Financial assets at amortised cost	New line	(b)		1,636,143	1,636,143
Held-to-maturity investments	Removed	(b)	112,456	(112,456)	
Derivatives – Hedge accounting			-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk			-	-	-
Investments in joint ventures and associates			-	-	-
Joint-controlled entities	Removed		-	-	
Joint ventures	New line			-	-
Associates entitites	Removed		-	-	
Associates	New line			-	-
Tangible Assets			51,788	-	51,788
Intangibles assets			10,216	-	10,216
Tax Assets			33,004	-	33,004
Other Assets			9,314	-	9,314
Non-current assets and disposal groups classified as held for sale			10,484	-	10,484
TOTAL ASSETS			3,205,239	-	3,205,239

	Notes		2017	Reclasific.	2017 modified
			Thousands of euros		
LIABILITIES					
Financial liabilities held for trading			-	-	-
Financial liabilities designated at fair value through profit or loss			-	-	-
Financial liabilities measured at amortised cost			2,939,288	-	2,939,288
Derivatives – hedge accounting			-	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk			-	-	-
Provisions			11,319	-	11,319
Tax liabilities			13,215	-	13,215
Share capital repayable on demand			-	-	-
Other Liabilities			6,041	-	6,041
Liabilities included in disposal groups classified as held for sale			-	-	-
TOTAL LIABILITIES			2,969,863	-	2,969,863
EQUITY					
Equity			193,423	-	193,423
Capital			27,491	-	27,491
Share Premium			29,033	-	29,033
Equity instruments issued other than capital			-	-	-
Other equity			-	-	-
Retained earnings			124,955	-	124,955
Revaluation reserves			-	-	-
Other reserves			-	-	-
(-) Treasury shares			(368)	-	(368)
Profit or loss attributable to owners of the parent			12,312	-	12,312
Accumulated other comprehensive income			22,760	-	22,760
Items that will not be reclassified to profit or loss			-	54	54
Actuarial gains or (-) losses on defined benefit pension plans			-	-	-
Non-current assets and disposal groups classified as held for sale			-	-	-
Accumulated changes in fair value of equity instruments measured at fair value through other comprehensive income	New Line	(c)		54	54
Accumulated hedge ineffectiveness for equity instruments measured at fair value through other comprehensive income	New Line			-	-
Accumulated change in fair value of a financial liability at fair value through profit or loss that is attributable to changes in the credit risk of that liability	New Line			-	-
Other valuation adjustments	Removed		-	-	
Items that may be reclassified to profit or loss			22,760	(54)	22,706
Hedge of net investments in foreign operations [effective portion]	Modification name		-	-	-
Foreign currency translation			-	-	-
Hedging derivatives, Cash flow hedges reserve [effective portion]	Modification name		-	-	-
Fair value changes of financial assets measured at fair value through other comprehensive income	Removed		22,760	(22,760)	
Available-for-sale financial assets	Removed	(d)	22,706	(22,706)	
Debt instruments	Removed	(c)	54	(54)	
Equity instruments	New Line	(d)		22,706	22,706
Hedging instruments [not designated elements]	New Line			-	-
Share of other recognised income and expense of investments in joint ventures and associates			-	-	-
Minority interests [Non-controlling interests]			19,193	-	19,193
TOTAL EQUITY			235,376	-	235,376
TOTAL EQUITY AND LIABILITIES			3,205,239	-	3,205,239
MEMORANDUM ITEM: OFF-BALANCE SHEET ITEMS					
Loan commitments given	New Line	*(e)*		*243,466*	*243,466*
Guarantees given	Removed	*(e)*	*39,913*	*(39,913)*	
Financial guarantees given	New Line	*(e)*		*21,772*	*21,772*
Contingent commitments given	Removed	*(e)*	*269,272*	*(269,972)*	
Other commitments given	New Line	*(e)*		*43,947*	*43,947*

Explanatory notes to the modified consolidated balance sheet at December 31, 2017

(a) Debt securities and equity instruments worth EUR 1,231,950 thousand at December 31, 2017 included in "Available-for-sale financial assets" are classified under the new item "Financial assets at fair value through other comprehensive income".

(b) "Financial assets at amortized cost" includes the balance of "Loans and receivables" of EUR 1.523.687 thousand at December 31, 2017 and debt securities at amortised cost included in "Held-to-maturity investments" at December 31, 2017 of EUR 112,456 thousand.

(c) Transfer of the entire balance of "Items that may be reclassified to profit or loss – Available-for-sale financial assets – Equity instruments" of EUR 54 thousand at December 31, 2017 to the new item "Items that will not be reclassified to profit or loss – Accumulated changes in fair value of equity instruments measured at fair value through other comprehensive income".

(d) The item "Available-for-sale financial assets – Debt instruments" is replaced, with the full balance at December 31, 2017 of EUR 22,706 thousand classified in the new item "Fair value changes of financial assets measured at fair value through other comprehensive income" under "Items that may be reclassified to profit or loss".

(e) New disclosure for off-balance sheet exposures to distinguish between "Loan commitments granted" (this line item did not exist at December 31, 2017), "Financial guarantees granted" (this line item was called "Guarantees granted" at year-end 2017) and "Other commitments granted" (at December 31, 2017, this line item included undrawn loan balances, which have been reclassified to "Loan commitments granted").

2.2.2.3 Impacts of first-time application of IFRS 9

The table below itemizes the impacts for the Group of the first-time application of IFRS 9 on the basis of the balance sheet at December 31, 2017, modified for presentation purposes (note 2.2.2.2), to arrive at the balance sheet as of January 1, 2018:

(Note that the table only shows the balance sheet headings that have been impacted by the first-time application of IFRS 9)

	Thousands of euros		
	Dec. 31, 2017 (modified)	Transfers and measurement adjustments	Jan. 1, 2018
ASSETS			
Financial assets designated at fair value through profit or loss	-	69,884	69,884
Financial assets at fair value through other comprehensive income	1,231,950	(23,184)	1,208,766
Financial assets at amortised cost	1,636,143	(44,264)	1,591,879
TOTAL ASSETS		2,436	
LIABILITIES			
Tax Liabilities	13,215	731	13,946
TOTAL LIABILITIES		731	
EQUITY			
Equity			
Retained earnings	193,423	689	194,112
Accumulated other comprehensive income			
Items that will not be reclassified to profit or loss			
Accumulated changes in fair value of equity instruments measured at fair value through other comprehensive income	54	(54)	-
Items that may be reclassified to profit or loss			
Fair value changes of financial assets measured at fair value through other comprehensive income	22,706	1,070	23,776
TOTAL EQUITY		1,705	

Explanatory notes to the balance sheet at January 1, 2018

(a) Transfer of equity instruments included under "Financial assets at fair value through profit or loss" to the new heading "Financial assets not held for trading, mandatorily measured at fair value through profit or loss" for a cash value of EUR 43,001 thousand. This results in a positive adjustment to reserves of EUR 54 thousand net of the tax effect, which is deducted from "Accumulated other comprehensive income" in equity.

(b) Transfer of fixed-income positions in the current portfolio recognised in “Financial assets at fair value through other comprehensive income” with a carrying amount of EUR 17,381 thousand to “Financial assets at amortised cost” with a new carrying amount of EUR 26,883 million and a negative valuation adjustment from the transactions of EUR 44,264 thousand, net of the tax effect. This gives rise to an increase of EUR 1,705 thousand in "Accumulated other comprehensive income" net equity and in addition to a positive adjustment in reserves of EUR 635 thousand net of the tax effect, which is deducted from "Accumulated other comprehensive income" in equity.

(c) Additionally, not included in the foregoing table, the effect of the first-time application of Bancofar, S.A. has been to reduce the provisions associated with credit risk impairment by EUR 459 thousand, which has been recognised in the consolidated financial statements against the profit and loss account for 2018, and which has had a net tax impact of EUR 321 thousand on profit for 2018.

2.3 Use of judgments and estimates when preparing the consolidated financial statements

The Parent's Directors are responsible for the information published in the consolidated financial statements. When preparing certain information included in the consolidated financial statements, the Directors have made judgments and estimates based on hypotheses which affect the application of accounting principles and policies, as well as the amounts corresponding to assets, liabilities, income, expenses and commitments shown therein. The most significant estimates used to prepare these consolidated financial statements relate to:

- Losses due to the impairment of financial assets (see Notes 3.7 and 3.13).
- Losses due to the impairment and useful life of property, plant and equipment and intangible assets (see Notes 3.10 and 3.11).
- The hypotheses used for making actuarial calculations to value liabilities and commitments corresponding to post-employment remuneration (see Note 3.14).
- The fair value of specific financial assets which are not traded on official OTC markets (see Note 3.5 and 3.8).
- The estimation of the need or otherwise to recognize provisions and the amount of the provisions to be recognized, if any (Notes 3.6 and 3.16).
- The recoverability of deferred tax assets (Note 24).

The estimates and hypotheses used are based on historic experience and other factors considered the most reasonable at the time and are reviewed periodically. If said estimates are to be modified as a result of such reviews or future events, the related effects are to be recorded in the income statement of that period and subsequent periods.

2.4 Consolidation criteria

For the purposes of consolidation and in accordance with the criteria set out in IFRS 10, consolidated financial statements, IFRS 11 "Joint agreements'' and IAS 28 "Investments in Associates and Joint Ventures'' the Group comprises four types of companies: subsidiaries, joint ventures, associates and structured entities, defined as follows.

Subsidiaries

Subsidiaries are entities over which the Group has control.
An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Consideration as subsidiaries requires:

a. Power: An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities; i.e. the activities that significantly affect the investee's returns;

b. Returns: An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or both positive and negative.

c. Link between power and returns: An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.

The financial statements of subsidiaries are fully consolidated with those of the Bank.

The share of non-controlling interests of subsidiaries in the Group's consolidated equity are presented under "Non-controlling interests” in the consolidated balance sheet, while their share of profit and losses is presented under “Profit or loss- Attributable to non-controlling interests” in the consolidated income statement.

The results of subsidiaries acquired during the period are included in the consolidated income statement from the date of acquisition to period end.

Similarly, the results of subsidiaries disposed of during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

Appendix I contains significant information on these entities.

Joint ventures

These are entities over which there is contractually agreed sharing of control. A joint arrangement is a contractual agreement giving two or more entities, or "parties", control of an activity subject to joint control. In a joint arrangement, no party has control over the arrangement, but rather control is shared with the other parties, which implies, contractually, that decisions about the relevant activities require the unanimous consent of the parties that share control.

At December 31, 2018 and 2017, the Group did not have any investments in joint ventures.

Associates

Associates are defined as companies over which the Bank has the capacity to exercise significant influence, although not joint control or joint control.

This capacity is usually manifested in a holding (direct or indirect) equal to or greater than 20% of the voting rights of the investee. At December 31, 2018 and 2017, there were no entities in which 20% or more of the voting rights were held that were not considered associates.

In the consolidated financial statements, associates are accounted for using the equity method.

At December 31, 2018 and 2017, the Group did not have any investments in associates.

Jointly controlled entities

Structured entities is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements

At December 31, 2018 and 2017, the Group held no investments in jointly controlled entities.

2.5 Capital management objectives, policies and processes

On June 26, 2013, Regulation 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (the "Regulation (EU) 575/2013") and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the "Directive 2013/36/EU") were approved, repealing regulations on solvency in force until then. They came into effect on January 1, 2014 and will be phased in gradually until January 1, 2019.

Regulation (EU) 575/2013 and Directive 2013/36/EU regulate capital requirements in the European Union and include the recommendations set out in the Basel III capital regulatory framework or agreement, specifically:

- Regulation (EU) 575/2013, which is directly applicable to Member States, contains prudential requirements for credit institutions and covers, *inter alia*, the following:

    - The definition of elements of eligible capital, establishing requirements for hybrid instruments to be included and limiting the eligibility of minority interests.

    - The definition of prudential filters and deductions of items in each capital levels. In this respect, the Regulation includes new deductions compared to Basel II (net tax assets) and introduces changes to existing deductions. Nevertheless, it notes that the Regulation establishes a phase calendar until its final full implementation l between 5 and 10 years.

    - Establishment of minimum requirements, with three levels of own funds: a Common Equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6% and a total capital ratio of 8%.

    - Requirement of financial institutions to calculate a leverage ratio, defined as Tier 1 capital divided by total exposure unadjusted for risk. The disclosure requirement will be applicable from 2015 onwards.

- The aim and main purpose of Directive 2013/36/EU, which must be transposed into national legislation by the Member States according to their criteria, is to coordinate national legislation regarding the access to the activity of credit institutions and investment firms and their governance and supervisory framework. Directive 2013/36/EU includes, *inter alia*, additional capital requirements to those established in the Regulation (EU) 575/2013, which will be phased in gradually until 2019. Failure to comply will imply restrictions on the discretionary distributions of profit, specifically:

    - A capital conservation buffer and a countercyclical capital buffer, extending the regulatory framework of Basel III, to mitigate pro-cyclical effects of financial regulation. All financial institutions must maintain a common capital buffer of 2.5% above Common Equity Tier 1 and an institution-specific countercyclical buffer above Common Equity Tier 1.

    - A systemic risk buffer. For global systemically important institutions and other systemically important institutions to mitigate systemic or macroprudential risks; i.e. risks of disruptions in the financial system with the potential to have serious negative consequences for the financial system and the real economy in a specific Member State.

In addition, Directive 2013/36/EU, within the powers attributed to supervisory authorities, stipulates that the competent authority can make credit institutions hold higher levels of capital than those required in the aforementioned Directive.

To further strengthen the resilience of banks, on 23 November 2016, the European Commission presented a package of banking reforms to prevailing legislation on capital requirements of (UE) Nº 575/2013 Regulation and the Directive 2013/36/UE , and on the resolution of banks (Bank Recovery and Resolution Directive or BRRD). From that date, the package of banking reforms was subject to a public consultation, until in November 2018 it was submitted for consideration by the European Parliament and Council, and subsequently endorsed by the ECOFIN on 4 December 2018. The reforms are expected to become effective in early 2019 after final approval by the European Parliament and publication in the Official Journal of the European Union.

Regarding Spanish regulations, the new legislation is aimed at transposing European rules at local level:

- Bank of Spain Circular 2/2014, of January 31, for credit institutions regarding the various regulatory options contained in Regulation (EU) no. 575/2013. The purpose is to establish, in accordance with the powers granted, which options of those contained in the CRR attributed to national competent authorities will be required to consolidable groups of credit institutions and credit institutions, whether part of a consolidable group or not, by January 1, 2014 and to what extent. In this Circular, the Bank of Spain makes use of some of the permanent regulatory options included in the CRR, to allow the treatment that Spanish law had been giving to certain questions before the entry into force of the EU regulation to be continued, justifying this by the business model that Spanish institutions have traditionally followed. This does not preclude the exercise in future of other options for competent authorities provided for in the CRR, in many cases mainly when they are specific for direct application of the CRR without the requirement to be included in a Bank of Spain circular.

- Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, to continue the transposition of the CRD IV initiated by Royal Decree Law 14/2013, of 29 November, and recast certain national provisions in place at the time regarding the organisation and discipline of credit institutions. This law introduces, inter alia, an express obligation for the first time on the part of the Bank of Spain to present an annual Supervisory Programme setting out the content and how it will perform its supervisory activity, together with the actions to be taken in accordance with the outcome. This programme must include a stress test at least once a year.

- Bank of Spain Circular 3/2014, of 30 July, for credit institutions and authorised appraisal firms and services. Among other measures, this Circular amends Circular 2/2014 of 3January 1, on the exercise of the regulatory options contained in Regulation (EU) No. 575/2013, on prudential requirements for credit institutions and investment firms in order to unify the treatment of the deductions of intangible assets during the transitional period set out in Regulation (EU) No. 575/2013, equating the treatment of goodwill to that of all other intangible assets.

- Bank of Spain Circular 2/2016, of 2 February. This Circular completes the transposition of Directive 2013/36/EU and includes additional regulatory options for the national competent authorities to those included in Circular 2/2014. Specifically, it includes the possibility of treating, subject to prior authorisation by the Bank of Spain, certain exposures with public sector entities with the level weightings as the administrations to which they belong.

- Bank of Spain Circular 3/2017 (of 24 October 2017) amending certain aspects of Circular 2/2014 (of 3January 1, 2014). Its scope of application has been limited to the less significant entities, the contents of the Circular have been fine-tuned to reflect the guidelines issued by the ECB and it eliminates the rules regarding the transitional arrangements that were in effect until 2017.

- Royal Decree Law 22/2018 of 14 December 2018 establishing macroprudential tools and limits on sectoral concentration, along with conditions on the granting of loans and other exposures. In this respect, the Bank of Spain may require application of a countercyclical buffer for all of an entity's exposures or exposures in a specific sector.

The Group uses the following methods when calculating its minimum capital requirements:

- To calculate its risk-weighted capital requirements in respect of credit, counterparty, dilution and delivery risk: the standardized method.

- To calculate its capital requirements in respect of operational risk: the basic indicator approach.

- To determine overall exposure to credit valuation adjustment risk: the standardized method.

- The Group did not have any exposure to settlement-delivery risk, position risk, exchange-rate risk, commodity price risk or other significant risk factors at either year-end 2018 or year-end 2017.

The following table provides a detailed breakdown of the Group's capital levels at December 31, 2018 and 2017 and its capital requirements calculated in accordance with the Regulation (EU) 575/2013 and Directive 2013/36/EU:

	2018		2017	
	Thousands of euros	%	Thousands of euros	%
Tier I [(1)]	213,116	14.95	188,942	13.54
Tier II [(2)]	-		15,745	
Total capital	213,116	14.95	204,687	14.67
Total own funds requirement	1,425,181		1,395,577	

(1) Includes, mainly, share capital, reserves and transitional arrangements due to non-controlling interests eligible for CET 1 capital purposes, less own shares, goodwill and intangible assets and other transitional arrangements included in Additional Tier 1 capital.

(2) Includes general credit valuation adjustments using the standardized approach.

At both reporting dates, the Banco Caminos Group's capital ratios were above the minimum thresholds stipulated by the Bank of Spain by virtue of application of article 68.2.a of Spanish Law 10/2014.

The Entity's strategic objectives regarding the management of own funds are the following:

- To comply at all times with prevailing regulations regarding minimum equity requirements both at the Group and individual company level.

- To strive for maximum efficiency in the management of own funds to ensure that, together with other return and risk variables, the use of own funds is considered a fundamental variable when analysing the Group's investment decisions.

- Increase the weight of tier-one own funds over the Group's total own funds.

2.5 Minimum reserve ratio

At December 31, 2017 and 2018, and throughout 2017 and 2018, the Bank met the minimum reserve ratio required by applicable Spanish legislation.

2.6 Deposit Guarantee Fund – Single Resolution Fund.

The Bank and Bancofar, S.A. contribute to the Credit Institution Deposit Guarantee Fund created by Royal Decree-Law 16/2011, of 14 October, whose purpose is to guarantee deposits in cash, securities or other financial instruments at credit limitations, up to a maximum of €100,000 for cash deposits or, for deposits made in another currency, the equivalent amount applying the appropriate exchange rates, and of €100,000 for investors entrusting a credit institution with securities or other financial instruments. These two guarantees by the Fund are different and mutually compatible.

The contribution to the FGD is made each year based on the resolutions adopted annually by the FGD Management Committee, which in the case of the cash deposit takes as its basis the deposits existing at 30th June of each year, the contribution of each entity being adjusted according to its risk profile, and in the case of the securities guarantee the deposits existing at 31st December.

In accordance with the foregoing, in 2018 the expense incurred by the Group for the contributions made to the FGD amounted to €1,627 thousand (2017: €1,604 thousand), which were recognized under "Other Operating Expenses" in the accompanying consolidated income statement (see Note 25.3).

Elsewhere, Spanish Law 11/2015, of June 18, 2015, along with its implementing legislation, namely Royal Decree 1012/2015, of November 6, 2015, transposes Directive 2014/59/EU, of May 15, 2014, establishing a framework for the recovery and resolution of credit institutions and investment firms, into Spanish law. The above law regulates the creation of the National Resolution Fund which must be endowed with an amount equivalent to 1% of guaranteed deposits by December 31, 2024 by means of contributions by the credit institutions and investment firms established in Spain. Administration of the Single Resolution Fund and calculation of the *ex-ante* contributions corresponding to the various entities has been the responsibility of the Single Resolution Board since January 1, 2016.

Individual contributions are calculated on the basis of each entity's respective share of the aggregate of the following concept: total liabilities excluding own funds and guaranteed deposits; this figure is subsequently adjusted for each entity's risk profile. Based on the foregoing, the contribution corresponding to the Group in respect of 2018 was €953 thousand (2017: €668 thousand) and has been recognized in the 2018 consolidated income statement.

3. VALUATION PRINCIPLES AND CRITERIA

The main valuation principles and criteria applied to prepare the consolidated financial statements were the following:

3.1 Principle of going concern and accruals principle

The information set forth in these consolidated financial statements has been prepared considering that the group will continue as a going concern in the foreseeable future and therefore, the directors have not applied the accounting standards used to determine the value of equity for total or partial transfer purposes or a hypothetical liquidation.

Except with respect to the cash flow statement, these consolidated financial statements have been prepared on an accrual basis, that is, transactions have been recorded at the moment the actual goods or services represented by them take place, regardless of when actual payment or collection occurs.

3.2 Offsetting balances

Debit and credit balances arising as a result of transactions are offset only when related contracts or applicable legislation envisage the possibility of offsetting them and the group intends to liquidate them at their net amounts or realize related assets and simultaneously pay the corresponding liabilities. Such balances are therefore presented at the corresponding net amount on the consolidated balance sheet.

The Group had not offset any financial assets and financial liabilities at either year-end. Nor did it have enforceable rights to set-off assets and liabilities subject to master netting arrangements that have not been presented net at the end of either reporting period.

3.3 Transactions in foreign currency

The euro is considered the functional currency for the purposes of the preparation of these consolidated financial statements. Foreign currency is understood as any currency other than the euro.

Upon initial recognition, balances receivable and payable in foreign currency have been converted to euros using the spot exchange rate. Subsequent to initial recognition, the following rules are applied when converting balances denominated in foreign currency to euros:

- Monetary assets and liabilities are translated into euros using the exchange rates prevailing at each year-end.

- Non-monetary items measured at fair value are converted using the exchange rates at the date when the fair value was determined.

- Income and expenses are translated at the exchange rate prevailing on the date of the transactions.

Exchange differences arising on translating foreign currency balances into the functional currency of consolidated entities and their branch offices are generally recognised at their net value in the consolidated income statement under "Exchange differences (net)". As an exception to this rule, exchange differences affecting the value of financial instruments measured at fair value through profit or loss are recognised in the consolidated income statement together with all other changes that may affect the fair value of the instrument, under “Gains or (-) losses on financial assets and liabilities held for trading, net” or “Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net”.

However, they exchange rate differences arising in non-monetary items, whose fair value is adjusted against counterparty in equity, are recognised in consolidated equity under “Accumulated other comprehensive income- Items that may be reclassified to profit or loss- Foreign currency translation” in the consolidated balance sheet until they are realised.

3.4 Recognition of income and expenses

As a general rule, interest income, interest expenses and similar items are recognised on the basis of their period of accrual using the effective interest method defined in IFRS 9. Dividends received from companies other than those within the scope of consolidation of the Group are recognised as income when the consolidated entities' right to receive them arises.

However, when a debt security is assessed to be impaired individually or collectively because recovery is considered unlikely, except for purchased or originated credit-impaired financial assets, the interest accrued in the consolidated income statement is the result of applying the effective interest rate to amortised cost (i.e. adjusted for any loss allowance), recognising an impairment loss for the same amount.

For purchased or originated credit-impaired financial assets, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the financial asset.

Dividend income is recognized when the shareholder’s right to receive payment is established. Notwithstanding the foregoing, interest and dividend income accrued prior to the date of acquisition of the instrument generating such income and pending collection neither forms part of the acquisition cost nor is recognized as income.

3.5 Financial instruments

3.5.1 Initial recognition of financial instruments

Financial instruments are initially recognised on the consolidated balance sheet when the Group becomes a party to the contract in accordance with the provisions thereof. Specifically, debt instruments, such as loans and cash deposits, are recognised from the date on which the legal right to receive or the legal obligation to pay cash arises. Derivative financial instruments 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 and forward currency purchase and sale contracts, is 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, transactions performed in the currency market and equity instruments traded in Spanish secondary securities markets are recognised on the trade date, and debt instruments traded in these markets are recognised on the settlement date.

3.5.2 Derecognition of financial instruments

A financial asset is derecognised when one or some of these following conditions happens:

- The contractual rights to the cash flows from the financial asset expire; or
- The financial asset is transferred and substantially all its risks and rewards or, although these are not substantially transferred or retained, it transfers control over the financial asset (see Note 3.9).

Financial liabilities are derecognised from the consolidated balance sheet when the obligations are extinguished or when they are repurchased by the Group with the intention either to resell them or to cancel them.

3.5.3 Fair value and amortised cost of financial instruments

The fair value of a financial instrument on a specific date is the amount at which it could be delivered or settled on that date between 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").

The Group measures daily all the positions that must be recognised at fair value based either on available market prices for the same instrument, or on valuation techniques supported by observable market inputs or, if appropriate, on the best available information, using assumptions that market agents would apply to measure the asset or liability assuming they are acting in its best interest.

Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and interest payments and the cumulative amortisation (as reflected in the consolidated income statement) using the effective interest method) of any difference between the initial cost and the maturity amount of the financial instruments. In the case of financial assets, amortised cost furthermore includes any reductions for impairment or uncollectibility.

The effective interest rate is the discount rate that exactly matches the carrying amount of a financial instrument to the present value of all its estimated cash flows of all kinds over its remaining life, but disregarding future credit losses. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date adjusted, where applicable, for the fees and transaction costs that, pursuant to IFRS 9, must be included in the calculation of the effective interest rate. In the case of floating rate financial instruments, the effective interest rate is determined in a similar fashion to fixed rate transactions and is recalculated on the date of every revision of the contractual interest rate of the transaction, taking into account any changes in the future cash flows.

3.5.4 Classification and measurement of financial assets and liabilities

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

- Financial assets at amortised cost: financial assets classified in this category present contractual terms that result in cash flows that are solely payments of principal and interest on the principal amount outstanding and are managed within a business model whose objective is to hold assets to collect their contractual cash flows.

  This category includes debt securities, financing granted to third parties in connection with ordinary lending activities carried out by Group companies and receivables from purchasers of their goods and users of their services, provided the assets are managed within a business model of holding the financial assets in order to collect their contractual cash flows and the cash flows are solely payments of principal and interest on the principal amount outstanding. It also includes finance lease transactions in which the Group act as the lessor.

  The financial assets included in this category are initially measured at fair value adjusted by the amount of transactions costs that are directly attributable to the acquisition of the financial asset, which are allocated to the consolidated income statement using the effective interest method through maturity. Unless there is evidence to the contrary, the fair value at initial recognition is the transaction price; i.e. the fair value of the consideration given.

  As an exception to the preceding paragraph, trade receivables that do not contain a significant financing component are measured initially at their transaction price. In addition, trade receivables that have a significant financing component with an original maturity of less than one year may be recognised initially at their transaction price.

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

  Subsequently, all financial assets included in this category are measured at their amortised cost, calculated using their effective interest rate.

  The interest accrued on these assets from their initial recognition, calculated using the effective interest method, is recognised under "Interest income" in the consolidated income statement. Exchange differences on securities included in this portfolio denominated in currencies other than the euro are recorded as set out in Note 3.3. Any impairment losses on these assets is recognised in accordance with Note 3.7. Debt securities included in fair value hedges are recognised in accordance with Note 3.8.

- Financial assets at fair value through other comprehensive income: this category includes debt securities whose contractual terms result in cash flows that are solely payments of principal and interest on the principal amount outstanding, are managed within a business model whose objective is to hold assets to collect their contractual cash flows, and give rise to cash flows from the sale of those assets.

It also includes equity instruments that are not related to subsidiaries, joint ventures or associates, voluntarily and irrevocably designated initially in this category and that shall not be classified as held for trading.

The instruments included in this category are initially measured at fair value adjusted by the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognised, through maturity, in the consolidated income statement by the effective interest method, except for those of financial assets with no fixed maturity, which are recognised in the income statement when these assets become impaired or are derecognised.

After acquisition, the financial assets included in this category are measured at fair value.

Changes in the fair value of financial assets classified as at fair value through other comprehensive income are recognised with a balance entry in "Accumulated other comprehensive income" in the consolidated balance sheet until the financial asset is derecognised, in the case of debt instruments, and in an item of reserves, in the case of investments in equity instruments. Any impairment losses on these instruments are recognised as set out in section vii) of this Note. Exchange differences on financial assets denominated in currencies other than the euro are recorded as set out in Note 3.3. Changes fair value of financial assets hedged in fair value hedges are recognised as explained in Note 3.8.

The interest accrued on debt instruments calculated using the effective interest method is recognised under "Interest income" in the consolidated income statement. Dividends accrued on equity instruments classified in this category are recognised under "Dividend income" in in the consolidated income statement.

- Financial assets and financial liabilities mandatorily measured at fair value through profit or loss: this category includes financial instruments classified as held for trading and non-trading financial assets mandatorily measured at fair value through profit or loss:

  - Financial assets held for trading: those acquired with the aim of selling them in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, and derivatives that have not been designated as hedging instruments, including those separated from hybrid financial liabilities.

  - Financial liabilities held for trading: those that have been issued with an intention to repurchase them in the near term or that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking; short positions arising from financial asset sales under non-optional repurchase agreements or borrowed securities received on loan or to secure sales rights, and derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to applicable regulations.

- Non-trading financial assets mandatorily at fair value through profit or loss: includes debt instruments that cannot be classified as at amortised cost or fair value through changes in other comprehensive income because, due to their contractual terms, they give rise to cash flows that are not solely payments of principal and interest on the principal amount outstanding.

  This category also includes equity instruments that are not related to subsidiaries, joint ventures or associates that should not be classified as held for trading and have not been voluntarily and irrevocably been designated initially as at fair value through other comprehensive income.

- Financial assets and financial liabilities designated at fair value through profit or loss: this includes, among others, financial assets designated voluntarily and irrevocably initially as at fair value through profit or loss if by doing so it eliminates or significantly reduces accounting mismatches, and hybrid instruments composed simultaneously of an embedded derivative and a host financial liability not held for trading that meets the requirements for accounting for the embedded derivative separately from the host financial instrument.

Financial assets and liabilities classified as held for trading, non-trading financial instruments mandatorily measured at fair value through profit or loss, and financial assets and financial liabilities designated at fair value through profit or loss are measured initially at fair value, with any subsequent changes in fair value recognised with a balancing entry in “Gains or losses on financial assets and liabilities held for trading, net”, “Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net” and “Gains or losses on financial assets and liabilities designated at fair value through profit or loss, net” in the consolidated income statement, except for fair value changes due to returns accrued on the financial instrument other than from trading, which are recognised under “Interest income”, “Interest expenses”, and “Dividend income” in the consolidated income statement, depending on their nature. Returns on debt instruments included in this category are calculated using the effective interest method.

The amount of the change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss is recognised in “Accumulated other comprehensive income” in the consolidated balance sheet, unless it would create or enlarge an accounting mismatch, which must be appropriately documented and justified. In this case, the entity may elect to recognise the full amount of the change in fair value initially and definitively in profit or loss.

- Financial liabilities at amortised cost: includes financial liabilities not included in any of the preceding categories.

  The financial liabilities included in this category are initially measured at fair value adjusted by the amount of transactions costs that are directly attributable to the issue of the financial liability, which are allocated to the consolidated income statement using the effective interest method defined in prevailing regulations through maturity. They are subsequently measured at amortised cost using the effective interest method.

The business model refers to how the Bank manages its financial assets in order to generate cash flows. The assessment of the business model of the various financial assets recognised in the balance sheet is performed at the level that best reflects how groups of financial assets are managed together to achieve a particular objective.

Accordingly, the assessment is not carried out on an instrument-by-instrument basis, but rather on a higher level of aggregation, based on the following factors:

– How the performance of the business model and the financial assets held within that business model are evaluated and reported to Management.

– The risks that affect the performance of the business model and the way in which those risks are managed.

– How managers and Management in charge of these businesses models are compensated.

Assessment of the business model, the grouping of the financial asset portfolios into the various business models and determination of the manner in which financial asset sales affect the business models all require the use of professional judgment.

The second step in the process carried out by the Bank to classify financial assets is to assess whether the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement.

In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest, which also include the consideration for other risks (e.g. liquidity risk) and costs.

This assessment requires the use of professional judgment when analyzing how certain contractual characteristics could affect the instrument's future cash flows.

However, if a contractual cash flow characteristic could have an effect on the contractual cash flows that is more than minima or that cash flow characteristic is genuine, and introduces exposure to risks or volatility that is unrelated to a basic lending arrangement, it does not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

3.5.5 Reclassification of financial instruments between portfolios

When, and only when, the Group changes its business model for managing financial assets, it reclassifies all affected debt instruments. On the basis that a change in the business model is considered to be exceptional or infrequent.

The Group has defined the following business models:

- Hold assets in order to collect contractual cash flows, whose objective is to hold financial assets to maturity in order to collect the contractual cash flows. Some sales are permitted, if those sales are infrequent or insignificant in value or that irrespective of their frequency and value are carried out due to an increase in the assets' credit risk.

- Hold assets in order to collect contractual cash flows and sell financial assets, whose objective is to hold financial assets to maturity, but also to sell them in order to realise the contractual cash flows by selling them. These financial assets are measured at fair value through other comprehensive income.

- Hold assets for sale, whose objective is to manage the financial assets in order to realise cash flows by selling them, which normally involves frequent purchases and sales of the assets. These financial assets are measured at fair value through profit or loss.

There was no change in the Group's business model during the period and, therefore, no reclassification of debt instrument portfolios took place.

3.6 Guarantees extended

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

In accordance with IFRS-EU, the Group generally treats financial guarantees provided to third parties as financial instruments within the scope of IFRS 9.

To determine whether a derivative sold is recognised as a financial guarantee or a trading derivative, a financial instrument is considered a derivative financial instrument when it meets the following conditions:

- Its value changes in response to the changes in a variable, sometimes called the "underlying", such as an interest rate, financial instrument and commodity price, foreign exchange rate, a credit rating or credit index, where this involves non-financial variables that are not specific to one of the parties to the contract.

- It requires no initial investment or one that is much smaller than would be required for other financial instruments that would be expected to have a similar response to changes in market factors.

- It is settled at a future date, except where it relates to a regular way purchase or sale of financial assets in conventional agreements, defined as one in which the parties' reciprocal obligations must be discharged within a time frame established by regulation or convention in the market place and that may not be settled net.

Financial guarantees are considered contracts that require or may require the Group to make specific payments to reimburse the creditor for the loss incurred when a specific debtor fails to meet its payment obligations under the original or amended terms of a debt instrument, regardless of its legal form, which may be, inter alia, a deposit, financial guarantee, insurance contract or credit derivative.

Specifically, guarantee contracts related to credit risk where execution of the guarantee does not require, as a necessary condition for payment, that the creditor is exposed to and has incurred a loss due to a debtor's failure to pay as required under the terms of the financial asset guaranteed, as well as in contracts where execution of the guarantee depends on changes in a specific credit rating or credit index, are considered derivative financial instruments.

The Group initially recognizes the financial guarantees provided on the liabilities side of the consolidated balance sheet at fair value, plus the directly attributable transaction costs, which is generally the amount of the premium received plus, where applicable, the present value of the fees, commissions and interest receivable from these contracts over the term thereof, and it simultaneously recognises, on the asset side of the consolidated balance sheet, the amount of the fees, commissions and similar amounts received at the start of the transactions and the amounts receivable at the present value of the fees, commissions and interest receivable. Subsequently, these contracts are recognised on the liabilities side of the consolidated balance sheet at the higher of the following two amounts:

- The amount determined in accordance with IRFS 9, taking into account that set forth in Appendix IX of Bank of Spain Circular 4/2017 in this estimate. In this regard, financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost, which are described in Note 3.7 above.

- The amount initially recognised for these instruments, less the related amortisation which, in accordance with IRFS 15, is charged to the consolidated income statement on a straight-line basis over the contract term.

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

If, in accordance with the foregoing, a provision is required for these financial guarantees, the unearned commissions on these transactions, which are recognised under “Financial liabilities at amortised cost – Other financial liabilities” on the liabilities side of the consolidated balance sheet, are reclassified to the appropriate provision.

3.7 Impairment of financial assets

Debt instruments measured at amortized cost or at fair value through other comprehensive income

The entry into force of IFRS 9 has resulted in a substantial change to the impairment model, replacing the incurred loss approach included in IAS 39 with an expected loss approach.

The new impairment model is applicable to debt instruments at amortised cost, debt instruments measured at fair value through other comprehensive income, and other exposures that give rise to credit risk, such as loan commitments given, financial guarantees given, and other commitments given.

The criteria for assessing and classifying transactions in the consolidated financial statements in accordance with their credit risk includes both the credit risk attributable to insolvency and the country risk to which the transactions are exposed. For those credit transactions that are expose to both credit risk attributable to insolvency and country-risk are classified in the category attributable to insolvency risk. Notwithstanding, impairment losses attributable to insolvency are estimated on country-risk basis when the latter requirements are more stringent.

Impairment losses for the period are recognised as an expense in the consolidated income statement, with a balancing entry in the carrying amount of the asset. Reversals of previously recognised impairment losses are recognised as income in the consolidated income statement. For debt instruments measured at fair value through other comprehensive income, the instrument is adjusted to fair value, with a balancing entry in “Accumulated other comprehensive income” in consolidated equity.

A) Classification of transactions for credit risk attributable to insolvency

Financial instruments – including off-balance sheet exposures – are classified into the following categories considering whether there has been a significant increase in credit risk since initial recognition of the transaction or a default event has occurred:

- Stage 1 – Standard exposure: the risk of a default event has not increased significantly since initial recognition of the transaction. The amount of the loss allowance for this type of instruments is equal to 12-month expected credit losses.

- Stage 2 – Standard exposure under special monitoring: the risk of a default event has increased significantly since initial recognition of the transaction. The amount of the loss allowance for this type of instruments is equal to lifetime expected credit losses.

- Stage 3 – Doubtful exposure: a default event in the transaction has occurred. The amount of the loss allowance for this type of instruments is equal to lifetime expected credit losses.

- Write-off: transactions in which the Group has no reasonable expectations of recovery. The amount of the loss allowance for this type of instruments is equal to its carrying amount and entails the full write-off of the asset.

For financial instruments classified in Stage 1 – Standard exposure, the Group assesses whether to continue recognising 12-month expected credit losses. The Group assesses whether there has been a significant increase in credit risk since initial recognition. If so, it transfers the financial instrument to Stage 2 – Standard exposure under special monitoring and recognises lifetime expected credit losses. This assessment is symmetrical, such that the financial instrument may return to Stage 1 – Standard exposure.

The Group's credit risk management systems factor in quantitative and qualitative criteria which, when combined or considered alone, could indicate that there has been a significant increase in credit risk. Irrespective of the measurements based on the probability of default and indicators of the deterioration of credit risk, to determine whether there has been a significant increase in credit risk since initial recognition, the Bank uses the indicators itemized in Annex 9 of Bank of Spain Circular 4/2017.

However, for assets with a counterparty of low credit risk, the Group applies the possibility included in the standard of considering that their credit risk has not increased significantly. Such counterparties are primarily central banks, public administrations, deposit guarantee and resolution funds, credit institutions, reciprocal guarantee companies, and non-financial public sector entities.

To determine the risk of default, the Group applies a definition that is consistent with the one used for internal credit risk management of financial instruments and considers quantitative and qualitative indicators.

In this respect, the Group considers that default occurs in credit exposures in the following circumstances:

- More than 90 days past due. This includes all transactions of an obligor when the amount of balances more than 90 days past due exceeds 20% of the amount outstanding.

- There are reasonable doubts that the full amount of the asset will be repaid.

A financial instrument is considered credit-impaired when one or more events that have a detrimental impact on its estimated future cash flows have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- Significant financial difficulty of the issuer or the borrower.

- Breach of contract, such as a default or past-due event.

- Grant by the lender, for economic or contractual reasons relating to the borrower's financial difficulty, a concession(s) to the borrower that it would not otherwise consider. Appendix X includes the classification and hedging policies and criteria applied by the Group/Bank in this type of transaction.

- It’s becoming probable that the borrower will enter creditors’ agreement or other financial reorganisation.

- The disappearance of an active market for that financial instrument because of the issuer's financial difficulties.

- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may be possible to identify a single discrete event or, instead, the combined effect of several events may have caused the credit impairment.

B) Approaches for estimating expected credit losses attributable to insolvency

In determining expected credit loss attributable to insolvency, the Group makes individual and collective estimates framed by the following criteria:

- It estimates allowances individually for the following kinds of transactions:

    - Non-performing exposures: transactions in arrears which the Entity considers significant; transactions classified into this category for reasons other than borrower arrears; and transactions that do not fit into a homogeneous risk group.

    - Performing exposures under special monitoring: transactions deemed significant by the Entity; transactions classified into this category as a result of individual analysis other than the automated methods; and transactions that do not fit in the homogeneous risk group.

- Allowance estimates are calculated collectively for all transactions that do not require individual assessment.

Individually-assessed impairment allowances are measured at the difference - negative - between the present values of the future cash flows expected during the remaining lives of the impaired financial instruments, discounted using the effective interest rate, and their respective carrying amounts as of the date of calculation.

Given that the Bank has not developed internal methodologies for collective impairment loss estimation, it uses the alternative solutions provided in Annex 9 of Bank of Spain Circular 4/2017, which contemplate the nature of the collateral securing the exposure; the credit risk segment in question and the ageing of the amounts past due.

C) Credit risk attributable to country risk

Country risk is understood as the risk associated with counterparties resident in a specific country due to circumstances other than normal commercial risk (sovereign risk, transfer risk or risks arising from international financial activity) or risk attributable to insolvency. The Group classifies third-party transactions into groups based on their economic performance, political situation, regulatory and institutional framework, and payment capacity and record, allocating to each the percentages of allowances stipulated in prevailing regulations.

Doubtful assets attributable to country risk include transactions with ultimate obligors resident in countries that have long-standing difficulties servicing their debt, with the possibility of recovering such debt as doubtful, and off-balance sheet exposures whose recovery is considered remote due to circumstances attributable to the country.

The Group does not have any significant exposures to credit risk attributable to country risk, so the level of provisions in this connection are not significant relative to total impairment allowances set aside by the Bank.

3.8 Hedge accounting

The Group has elected to continue applying the recognition and measurement criteria for hedges included in IAS 39.

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

When the Group designates a transaction as a hedge, it does so from the initial date of the transactions or instruments included in the hedge, and the hedging transaction is documented appropriately. The hedge accounting documentation includes identification of the hedged item(s) and the hedging instrument(s), the nature of the risk to be hedged and the criteria or methods used by the Group to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

The Group enters into hedges on a transaction-by-transaction basis in accordance with criteria explained previously, continually monitoring the effectiveness of each hedge, to ensure that changes in the value of the hedging instrument and the hedged item offset each other.

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

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

The Group's hedging transactions are classified into the following categories:

- Fair value hedges: these hedge exposure to changes in the fair value of recognised financial assets and liabilities or unrecognised firm commitments, or a component of any such item, that is attributable to a specific risk and could affect the consolidated income statement.

  The Group applies hedge accounting to reduce the risk that the fair value of fixed-rate assets and liabilities will fluctuate as if they were instruments indexed to a floating interest rate. The Group only hedges changes in the fair value of the hedged instrument attributed to changes in the reference rate, which constitutes the main element of the total fluctuation in the fair value of the hedged item.

  The Group uses the hypothetical derivative method to assess effectiveness, by comparing changes in the fair value of the hedging instruments and hedged items attributable to the change in the reference rate, as explained for fair value hedges. This method implies modelling a derivative instrument whose characteristics perfectly match those of the hedged risk, so that the change in the fair value of the hypothetical derivative should be equivalent to the change in the present value of the expected future cash flows of the hedged item. The measurement of hedge ineffectiveness is based on a comparison between the changes in the fair of the derivative actually entered into as a hedge and the changes in the fair value of the hypothetical derivative.

  Specifically, for financial instruments designated as hedged items and hedges, the differences in value are recognised as follows:

  – The gains or losses arising on both the hedging instruments and the hedged items associated to hedged risk are recognised directly in the consolidated income statement. The balancing entry of changes in fair value of the hedged item attributable to hedged risk is recorded as an adjustment to fair value of the hedged instrument.

- When hedge accounting is discontinued for a fair value hedge, in the case of hedged items at amortised cost, the value adjustments made as a result of the hedge accounting are recognised in the income statement through maturity of the hedged items, using the effective interest rate recalculated as at the date of discontinuation of hedge accounting.

- Cash flow hedges: the Group had no cash flow hedges at year-end 2018 or 2017.

- Hedges of net investments in a foreign operation: the Group had no such hedges at year-end 2018 or 2017.

3.9 Transfers of financial assets

The Group derecognizes a transferred financial asset when it transfers all contractual rights to receive related cash flows generated or when having retained these rights, it assumes the contractual obligation to pay them to the transferee and the risks and rewards of ownership of the financial asset have been substantially transferred.

If the risks and rewards of ownership of a financial asset transferred are retained substantially, the group continues to recognize the financial asset and recognizes a financial liability for the same amount as the consideration received. This financial liability is subsequently measured at amortized cost. The valuation criteria applied to the financial asset transferred is the same as that applied prior to the transfer. Gains on the financial asset transferred and expenses on the financial liability are recognized in the consolidated profit and loss account, respectively.

If the risks and rewards of ownership of financial assets transferred are not transferred or substantially retained and the group has retained control of the asset, it recognizes a financial asset for an amount equal to the exposure to the variability of the present value of the financial asset transferred, and an associated financial liability which is valued in such a way that the net carrying amount of the transferred asset and the associated liability is:

- The amortized cost of the rights and obligations retained by the Group if the transferred asset is measured at amortized cost.

- The equivalent of the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis if the transferred asset is measured at fair value.

If the Group does not retain control of the financial instrument transferred, it is removed from the consolidated balance sheet and any right or commitment retained or created as a result of the transfer is recognized.

The assets (“Receivable from customers”) transferred by the Parent Entity in 2004 have not been cancelled given that all related risks and rewards of ownership have not been fully transferred (see Note 12.3).

3.10 Tangible assets

Tangible assets include buildings, land, furniture, vehicles, computer equipment and other installations owned by the group or acquired under financial leases. Tangible assets are classified by concept as tangible assets for own use, investment property, and other assets leased out on operating leases.

For own use includes mainly offices (constructed and under development) owned by the Group. These assets are measured at cost less any accumulated depreciation and impairment losses.

The cost of tangible assets includes amounts initially disbursed for acquisition or production, as well as any amounts disbursed subsequently for expansion, replacement or improvement of assets, when the group expects to earn future gains from continuing use of said assets.

The acquisition or production cost of tangible assets, net of the residual value, is depreciated using the straight-line method based on the useful life of the various assets, as follows:

	Years of useful life	Depreciation percentages applied
Buildings for own use	50	2%
Furniture	10	10%
Fixtures	10 – 12.5	8% - 10%
Computer equipment	4	25%

Repairs and maintenance expenses that do not increase the useful lives of assets are charged to the consolidated income statement of the year incurred.

The financial expenses incurred to finance the acquisition of tangible assets are not included in related acquisition costs. They are recognized in the consolidated profit or loss during the year incurred.

Assets acquired through instalments are recognized at the cash amounts paid and liabilities are recorded for the corresponding residual amounts pending payment. If the instalment payment period exceeds 90 days (180 days in the case of buildings), related expenses are discounted from the acquisition cost and recognized as financial expenses in the consolidated income statement.

Tangible assets, including assets under financial leases, are derecognized when disposed of or when permanently retired from use and no future economic benefits are expected from disposal, transfer or abandonment. The difference between the sales price and the carrying amount is recognized through consolidated profit or loss of the period in which the asset is derecognized.

The Group periodically assesses whether there are any internal or external indications that the carrying amounts of assets will be impaired at the financial statement date. It estimates the recoverable amount of such assets which is understood as the greater of (i) related fair value less necessary sales costs and (ii) related use value. If the recoverable amount, thus determined, is less than the carrying amount, the difference between the two amounts is recognized in the consolidated income statement as a decrease in the carrying amount of such assets.

The accounting principles applied to assets leased out on operating leases, non-current assets held for sale and assets assigned to education and promotion projects are set forth in Notes 3.12 and 3.13.

3.11 Goodwill and other intangible assets

3.11.1 Goodwill

Goodwill is only recognized when the Group has acquired the future economic benefits of the acquired company in exchange for compensation considered to represent advance payments and such benefits may not be individually or separately identified or known.

At least once a year or whenever there are indications of impairment, the Group evaluates goodwill to determine whether it has undergone impairment which would reduce the recoverable amount to less than the net cost recorded, if this is the case. It records the corresponding write-off against the consolidated income statement. Impairment losses recognized for goodwill are not reversed in subsequent periods.

3.11.2 Other intangible assets

The Group classifies non-monetary assets as other intangible assets when such assets are expected to provide probable economic benefits and related costs may be reliably determined.

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

At December 31, 2018 and 2017, the Group has no intangible assets with indefinite useful lives.

Intangible assets with finite lives are amortized over those useful lives using methods similar to those used to depreciate property and equipment.

The years of useful lives and related amortization percentages applied to intangible assets are the following:

	Years of useful life	Amortization percentages applied
Software	3	33.33%
Customer portfolio	18.75	5.33%

The Group recognizes any impairment loss which may arise with respect to the carrying amount of these assets and recognizes an offsetting balance under "Impairment or (-) reversal of impairment on non-financial assets – Intangible assets" in the consolidated income statement. The criteria for recognizing such impairment and any related recoverable amounts on impairment losses recognized in prior years are similar to those applied to tangible assets.

3.12 Leases

The Group classifies lease contracts based on the substance and financial reality of the transaction regardless of whether they are set up as financial or operating leases. Financial leases are leases that transfer substantially all the risks and rewards incidental to ownership of an asset. All other leases are classified as operating leases.

Financial leases

Receivables for financial leases are reflected on the assets side of the balance sheet at the amount of the net investment in the lease which is equal to the present value of collections receivable from lessee throughout the duration of the lease, plus any residual value whose payment has been directly or indirectly guaranteed by the lessee or third parties with sufficient financial capacity and any unguaranteed residual value which corresponds to the lessor.

As of December 31, 2018 and 2017 the Group has no assets for significant amounts acquired under financial leases.

Operating leases

Assets under operating leases have been classified on the consolidated balance sheet based on the type of assets.

Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the term of the lease. Initial direct costs incurred by lessors are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as lease income.

Collections received upon arrangement of an operating lease are treated as advance payments and amortized over the lease term as per the pattern in which the leased asset's economic benefits are expected.

The accounting criteria which the Group applies to amortize leased assets is described in the notes on tangible assets (see Note 3.10).

If a sale and leaseback transaction result in an operating lease and it is clear that the transaction is established at fair value any profit or loss is immediately recognized; otherwise the difference between the fair value and the sales price is recognized as follows:

- When the fair value is greater than the sales price, the loss compensated by future lease instalments below market price is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used.

- When the fair value is less than sales price, the difference is deferred and amortized over the period for which the asset is expected to be used.

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

"Non-current assets and disposal groups classified as held for sale" on the consolidated balance sheet correspond to the carrying amounts of the individual line items ("non-current assets") or items grouped into a single heading ("disposal group") comprising a business unit that is to be sold ("discontinued operations"), whose sale is considered highly likely, in the assets' present condition, within one year from the date of the consolidated financial statements. Accordingly, the carrying amount of those assets and any directly associated liabilities, which may be financial or non-financial, is expected to be recovered principally through a sale transaction rather than through continuing use.

At both year-ends, the Group only included real estate assets foreclosed or received in payment of debt in this heading. Those assets are recognized initially at the lower of the following amounts:

- The carrying amount of the financial assets held for sale.

- The fair value at the time of foreclosure or receipt of the asset less estimated costs to sell.

Subsequent to initial recognition, the Group updates the benchmark valuation used originally to estimate the fair value less estimated costs to sell at least annually.

Assets foreclosed or received in payment of debt that are classified as non-current assets held for sale for which the Group has not attained sufficient sales volumes and thus does not have the sales experience required to substantiate its ability to sell them at their fair value are measured by applying to their benchmark value the percentage haircuts estimated by the Bank of Spain by way of alternative solution on the basis of its experience and its information about the banking sector, as set down in Bank of Spain Circular 4/2017.

All court costs associated with the claiming and foreclosure of these assets are recognised immediately in the consolidated income statement for the foreclosure period. Registry costs and taxes paid may be added to the value initially recognised provided that, as a result, such value does not exceed the fair value less the estimated costs to sell mentioned in the paragraph above. All expenses related to the administration and management of the assets are recognised in the consolidated income in the period in which they are accrued.

3.14 Personnel expenses and post-employment benefits

3.14.1 Short-term employee benefits

These benefits are measured (and not updated) at the amount which has been paid for services received and are recognized in general as “Personnel expenses” for the year. The difference between the total expense and the amount already paid is shown under “Accrued expenses and deferred income”.

3.14.2 Pension commitments

Widowhood and orphanhood

By virtue of regulations and collective labor agreements, the Group is required to supplement the social security benefits accruing to the spouses or orphans due to the death of active employees. The Group has subscribed an insurance policy for its employees with an insurance company in order to cover related liabilities for which an annual premium is paid.

Seniority bonus

When the Entity was a credit cooperative, it paid a seniority bonus equal to three monthly salary payments to employees who retire. In 2002, the Entity subscribed an insurance policy with an insurance company to cover related liabilities. When it became a Bank, in 2009 this obligation ceased to exist.

Termination benefits

Termination benefits are recognized as a provision for pension funds and similar obligations and as a personnel expense only when the Group is demonstrably committed to terminate the employment of an employee or group of employees before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Pension obligations of Bancofar, S.A.

Group company Bancofar, S.A. has other commitments to current employees who joined the staff of Bancofar, S.A. from Acofar, Sociedad Cooperativa de Crédito as a result of a partial de-merger; specifically, the commitments are those envisaged in articles 26 and 40 of the collective bargaining agreement for credit cooperatives (establishing a long-service bonus and benefits for widowhood and orphanhood). As provided in Bank of Spain Circular 4/2017, these commitments are classified as defined benefit commitments.

At December 31, 2018, the present value of the commitments for risks accrued for unvested pensions of current employees of Bancofar, S.A. amounts to 202 thousand euros (2017: 193 thousand euros) and is covered by an internal fund (covering the obligations encompassed by Royal Decree 1588/1999) recognized under "Provisions - Provisions for pensions and similar obligations" on the consolidated balance sheet (Note 19). This figure was estimated on the basis of an actuarial study commissioned of an independent actuary firm which in turn factors in the terms agreed to in the prevailing collective bargaining agreement for credit cooperatives, as well as the following assumptions, among others:

	2018	2017
Technical interest rate	1.75%	1.75%
Mortality and survival tables	PERM 2000P (men) y PERF 2000P (women)	PERM 2000P (men) y PERF 2000P (women)
Annual wage growth rate	1.5%	1.5%
CPI	1.5%	1.5%

“Actuarial gains and losses" are those deriving from differences between the above actuarial assumptions and the reality or from changes in the actuarial assumptions used. The Group recognizes the actuarial gains and losses arising in relation to its post-employment commitments to employees in the year in which they arise by means of the corresponding income-statement credit or charge.

Bancofar, S.A. did not have any vested pension commitments at year-end 2018 or 2017 or at any time during those years.

3.15 Share-based payments to employees

The Group makes no share-based payment to its employees.

3.16 Other provisions and contingent liabilities

The group distinguishes between provisions and contingent liabilities. The former are credit balances which cover present liabilities at the balance sheet date arising as a result of past events regarding which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations which are considered probable in terms of occurrence, certain in terms of nature but uncertain in terms of amount and/or cancellation date; while the latter are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

The consolidated financial statements include all significant provisions when the Group considers that it will more likely than not have to settle related obligations. Although contingent liabilities are not recognized in the consolidated financial statements, related information is included under memorandum items.

Provisions, which are quantified taking into consideration the best available evidence on implications of obligating events and are re-estimated at the balance sheet date, are used to cover the specific obligations for which they were originally recognized and partially or fully reversed when said obligations decrease or cease to exist.

Legal proceedings and/or claims underway

At year end, there were no significant on-going legal proceedings and claims which had been filed against the Group in its normal course of business. The Group’s legal advisors and directors consider that the final outcome of these proceedings and claims will not have a significant effect on the consolidated financial statements.

3.17 Fees and commissions

The Group classifies the fees and commissions that it collects or pays as follows:

Financial service fees

These fees, which are an integral part of the effective rate of return or cost of a financial transaction and are collected or paid in advance, are recognized in consolidated profit or loss throughout the expected life of the financing as an adjustment to the effective rate of return or cost of the transaction, net of related direct costs.

Other service fees

These fees usually arise as a result of services rendered by the Group and are recognized in consolidated profit or loss throughout the related execution period. In the case of services executed via a significant act, related fees are recognized upon execution of the significant act.

3.18 Asset exchange transactions

In exchanges of property and equipment and intangible assets, the group measures the assets received at the fair value of the assets given up plus any monetary assets given in exchange, unless the fair value of the asset received is more clearly evident. When it is impossible to reliably measure the fair values of the assets, the assets received are recognized at the carrying amounts of the assets given up plus any monetary assets given in the exchange.

Losses incurred on asset exchange transactions are immediately recognized in the consolidated income statement, while related gains are only recognized if the exchange has commercial substance and the fair values of the assets may be reliably measured.

3.19 Income tax

The income tax expense is calculated as tax payable with respect to the tax result for the year, after considering changes during the year relating to temporary differences, tax credits for deductions and rebates, and loss carry forwards.

The tax expense is recognized in the income statement except when the transaction is recognized directly in equity and in business combinations in which deferred tax liabilities are recognized as another equity component of the business combination.

For deductions, rebates and tax credits for loss carryforwards to be effective, they must meet the requirements stipulated in prevailing legislation provided that related recovery is probable given that there are sufficient available deferred taxes or specific events have occurred due to which said recovery is no longer considered likely.

The tax effect of temporary differences is included in the corresponding deferred tax asset or liability headings under “Tax assets” or “Tax liabilities” on the accompanying consolidated balance sheet.

The Group reviews the carrying amounts of deferred tax assets and liabilities recognized, at least, at each balance sheet date and records the corresponding adjustments for deferred taxes which have lapsed or are considered not recoverable.

3.20 Off-balance-sheet customer funds

The Group includes the following resources entrusted in memorandum accounts at fair value by third parties to invest in investment management funds and firms, pension funds, savings insurance contracts and discretional portfolio management contracts, distinguishing between funds managed by the Group and those sold by the group but managed by third parties outside the Group.

Additionally, assets acquired on behalf of the group for third parties, debt securities, equity instruments, derivatives and other financial instruments that are held on deposit, as guarantees or on commission at the group for which it is liable to third parties are recognized in memorandum items at fair value or at cost when no reliable estimate of fair value exists.

The fees collected for these services are recognized under “Fee and commission income” in the consolidated income statement and are detailed in Note 3.17.

3.21 Consolidated statement of changes in equity

The consolidated statement of changes in equity reflects total changes in equity during the year. This information is likewise disclosed in two other statements:

- The consolidated statement of recognized income and expenses presents the income and expenses generated by the Group as a result of its activities during the year, differentiating between those recognized as profit or loss for the year in the consolidated income statement from income and expenses recognized, under the current standards, directly in equity.

- Consolidated statement of total changes in equity: presents all the changes in consolidated equity, including those originating in changed accounting criteria and restatements. This statement includes a reconciliation of the carrying value at the start and end of the year for in all items comprising consolidated equity, grouping the movements depending on their nature.

3.22 Consolidated cash flow statement

The following terms are used in the cash flow statement with the meanings indicated below:

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

- Operating activities: the principal revenue-producing activities of credit entities and other activities that are not investing or financing activities.

- Investing activities: the acquisition, sale and other disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of the contributed equity and borrowings not included in operating activities.

In preparing the consolidated cash flow statement, "Cash and cash equivalents" were considered to be short-term, highly liquid investments that are subject to a low risk of changes in value. Thus, for the purposes of drawing up the cash flow statement, the balance of “Cash, cash balances at central banks and other demand deposits” on the asset side of the consolidated balance sheet was considered as cash and cash equivalents.

4. ERRORS AND CHANGES IN ACCOUNTING ESTIMATES

In 2018 and to the preparation date of the consolidated financial statements, no errors or changes to accounting estimates whose significance would require disclosure in the consolidated financial statements approved by Banco Caminos' Board of Directors, as dominant entity, have occurred.

5. APPROPRIATION OF RESULTS

Below is the appropriation of 2018 that the Board of Directors of Banco Caminos (the Parent company) will propose to the Shareholders for its approval, together with the appropriation of 2017 profit approved by the Shareholders on June 30, 2018.

	Thousands of euros	
	2018	2017
Proposed appropriation		
To legal reserve		
To voluntary reserve		-
	8,200	7,867
Total appropriation		
	8,200	7,867
Profit for the year		
Proposed appropriation	8,200	7,867

At December 31, 2018 the legal reserve of the dominant Entity reached the 20% of Equity.

The appropriation of results of consolidated group entities will be determined by the shareholders of each entity in general meeting.

6. SEGMENT REPORTING

Business segments

Given the fact that at year-end 2018, 98.01% of the Group's total assets (2017: 97.8%) and 94.43% of the profit (2017: 83.9%) generated by it during the year then ended corresponded to the business activity pursued by its credit institutions (Banco Caminos, S.A. and Bancofar, S.A.), coupled with the fact that all of the Group's business activities are carried out in Spain, the Parent's management monitors the Group's performance by tracking the performance of these entities, without distinguishing between other operating segments.

The table below provides the disclosures required under prevailing legislation at December 31, 2018 and 2017 (pro forma for consolidation adjustments and eliminations):

	Thousands of euros			
2018	Group total	Banco Caminos	Bancofar	Rest
Total assets:	3,400,499	2,083,199	1,249,757	67,543
Of which:				
Debt securities	*1,338,771*	*1,337,935*		836
Loans and advances to other debtors	*1,660,663*	*505,582*	1,148,312	6,769
Total liabilities	3,159,107	2,460,293	695,027	3,787
Of which:				
Deposits from other creditors	*2,721,452*	*2,035,847*	675,089	10,516
Total profit and loss	12,489	8,200	3,593	*696*
Net interest margin	*46,329*	*27,489*	*18,836*	*4*

	Thousands of euros			
2017	Group total	Banco Caminos	Bancofar	Rest
Total assets:	3,205,239	2,036,359	1,098,460	70,420
Of which:				
Debt securities	*1,301,912*	*1,300,978*	-	934
Loans and advances to other debtors	*1,523,687*	*498,681*	1,005,687	19,319
Total liabilities	2,969,863	2,326,786	638,458	4,619
Of which:				
Deposits from other creditors	*2,536,496*	*1,882,561*	619,173	34,762
Total profit and loss	13,058	7,867	3,094	*2,097*
Net interest margin	*46,755*	*25,196*	*21,860*	*(301)*

Geographical segments

The Group carries out its activity in Spain. Its customers and the products it offers to them are similar throughout the country and thus information is reported on a single geographical segment.

7. FINANCIAL INSTRUMENT RISK MANAGEMENT

Credit institutions that operate in financial instruments may be faced with the assumption or transfer of one or several types of risks. The risks that correspond to financial instruments are:

7.1 Credit risk

Credit risk is understood as the probability of incurring losses due to the insolvency of one of the Group's customers. In the case of repayable financing (e.g. credit facilities, loans, deposits, securities) granted to third parties, credit risk arises as a result of failure to recover the investments made as per the conditions established in related contracts. Off-consolidated-balance-sheet risks arise due to the counterparty's failure to fulfill obligations with third parties, thus requiring the Group to assume risks as if they were its own by virtue of the commitments set forth in related contracts.

Credit risk is the most significant risk to which the Group is exposed as a result of its banking activity, and is understood as the risk of counterparties being unable to fully repay the amounts owed.

The management of the Parent Entity's credit risk is defined and structured based on objective and professional criteria, all aimed at the maximum giving the customer a decision in the minimum of time.

The Group's credit risk management is a standard integral procedure which covers the period from the date on which the customer requests financing up to the full repayment of the funds lent. The Group has also established several basic criteria for credit risk approval - liquidity, guarantees, profitability and prior credit rating - and minimum required documentation for compliance with prevailing legislation at any given time.

In relation to the study and analysis of asset transactions, the Group has the advantage of having personal knowledge of its individual customers, who are by nature members of Banco Caminos and operating from two branches, factors which facilitate the ongoing monitoring and recovery of delinquency.

The Group has embarked on a new path in credit risk analysis and management which will involve the use of support software to back final decisions. These tools consist of a reactive risk rating model and an integrated risk monitoring model designed to monitor individual customers (mortgage loans, consumer loans and credit cards). These models are to be used to reduce the time need to assess customer requests and facilitate arriving at better decisions in order to obtain the best possible credit portfolio.

Total credit risk exposure as of December 31, 2018 and 2017 is detailed as follows:

	Thousands of euros	
	2018	2017
Demand deposits at banks	27,408	44,755
Debt securities	1,338,771	1,301,912
Loans and advances - Customers	1,677,793	1,523,687
Derivatives	1,948	567
Total risk	3,045,920	2,870,921
Liabilities commitments granted	225,645	243,466
Financial guarantees granted	19,751	21,772
Other commitments granted	43,318	43,947
Total off-balance exposure	288,714	309,185
Total exposure	3,334,634	3,180,106

Distribution of debt instruments, loans and advances by credit risk

As of December 31, 2018 and 2017, debt instrument, loans and advances classification by stage default risk outlined in Note 3.7.a, and hedge accounting provisions constituted due to impairments are the following:

	Thousands of euros			
	Loans and advances		Debt instruments	
	2018	2017	2018	2017
Stage 1 (normal risk)				
Risk	1,591,142	1,487,454	1,340,973	1,303,879
Provision	(11,479)	(17,187)	(2,202)	(1,967)
Stage 2 (risk in special surveillance) (*)				
Risk	59,431	(*)	-	(*)
Provision	(6,692)	(*)	-	(*)
Stage 3 (doubtful risk)				
Risk	99,885	121,675	-	-
Provision	(54,494)	(68,255)	-	-
Total				
Risk	1,750,458	1,609,129	1,340,973	1,303,879
Provision	(72,665)	(85,442)	(2,202)	(1,967)
	1,677,793	1,523,687	1,338,771	1,301,912

(*) For the purpose of this chart presentation, the risks considered as normal in special surveillance under Bank of Spain Circular 4/2004, are included in Stage 1.

During the financial year 2018 there have been the following changes between the different risk stages:

	Thousands of euros
Shifts between stage 1 and stage 2	
From stage 1 to stage 2	13,226
From stage 2 to stage 1	13,097
Shifts between stage 2 and stage 3	
From stage 2 to stage 3	2,189
From stage 3 to stage	2,418
Shifts between stage 1 and stage 3	
From stage 1 to stage 3	3,528
From stage 3 to stage 1	1,690

Hereafter, it is presented the losses movement registration due to the impartments for the hedging credit risk accounting of financial assets included in this category during the financial year 2018:

	Thousands of euros			
	Stage 1	Stage 2	Stage 3	Total
Amount as of December 31, 2017	(19,154)	-	(68,255)	(87,409)
From those:				
Individually determined	-	-	*(68,255)*	*(68,255)*
Collectively determined	*(19,154)*	-	-	*(19,154)*
Movements reflected in the results	(474)	(974)	8,010	6,562
Origination increases	(6,354)	-	-	(6,354)
Changes due to credit risk variation	5,880	(974)	8,010	12,916
Calculation methodology changes	-	-	-	-
Others	-	-	-	-
Movements not reflected in the results	5,947	(5,718)	5,751	5,980
Transfers				
from stage 1 to stage 2	*5,752*	*(5,752)*	-	-
from stage 1 to stage 3	*1,181*	-	*(1,181)*	-
from stage 2 to stage 3	-	*212*	*(212)*	-
from stage 3 to stage 2	-	*(372)*	*372*	-
from stage 2 to stage 1	*(194)*	*194*	-	-
from stage 3 to stage 1	*(792)*	-	*792*	-
Provisions constituted usage	-	-	5,648	5.648
Other movements	-	-	332	332
Amount as of December 31, 2018	(13,681)	(6,692)	(54,494)	(74,867)
From those:				
Individually determined	-	*(6,692)*	*(54,494)*	*(61,186)*
Collectively determined	*(13,681)*	-	-	*(13,681)*

Credit ratings assigned to debt securities were the following:

Debt instruments credit quality presents the following detail:

	Thousands of euros	
	2018	2017
AAA	-	-
AA+	120,864	4,683
AA	33,838	98,291
AA-	30,498	2,409
A+	52,282	91,624
A	123,217	64,503
A-	22,338	49,994
BBB+	441,501	588,006
BBB	147,574	134,979
BBB-	217,823	56,401
BB+	96,371	106,415
BB	-	11,539
N/A	52,465	93,068
Total	1,338,771	1,301,912

Breakdown of Loans and advances - Customers

At December 31, 2018 and 2017, Banco Caminos, S.A. (the Group Parent) and Bancofar, S.A. constitute the Group's credit institutions and are therefore the Group entities presenting greater exposure to credit risk, Certain of the following statements refer exclusively to the situation of these two entities, although this is considered a fair proxy of the Group's overall situation in this respect.

The following table shows the distribution of risks classified as "Loans and advances - Customers" at Banco Caminos, S.A., based on the customers' business sector at December 31, 2018 and 2017:

	Thousands of euros					
	2018			2017		
	Risk	Distribution (%)	Of which: doubtful assets	Risk	Distribution (%)	Of which: doubtful assets
Sector						
Agriculture, livestock farming, hunting, forestry and fishing	630	0.04	-	1,175	0.07	-
Industry	4,327	0.25	*281*	2,132	0.13	*12*
Construction	19,422	1.11	*1,989*	19,503	1.20	*2,797*
Property and services companies	88,445	5.06	*7,462*	101,619	6.27	*13,583*
Energy	2,534	0.15	-	2,342	0.14	-
Services:	1,174,011	67.18	*68,598*	1,059,298	65.36	*82,854*
Trade and catering	*1,099,075*	*62.89*	*67,266*	*985,301*	*60.78*	*80,565*
Transportation and communications	*6,274*	*0.36*	*144*	*7,668*	*0.47*	*444*
Brokerage services	*7,796*	*0.45*	-	*7,774*	*0.48*	-
Other services	*60,866*	*3.48*	*1,188*	*58,555*	*3.63*	*1,845*
Loans to personal customers:	458,155	26.21	*21,556*	434,950	26.83	*22,429*
Home mortgages	*388,735*	*22.24*	*15,779*	*375,885*	*23.19*	*16,468*
Consumer and others	*69,420*	*3.97*	*5,777*	*59,065*	*3.64*	*5,961*
Unclassified	-	-	-	-	-	-
Total	1,747,524	100.00	*99,886*	1,621,019	100.00	*121,675*
Value adjustment for impairment	(74,331)		*(54,494)*	(86,567)		*(68,143)*
Total	1,673,193		*45,392*	1,534,452		*53,532*

The breakdown of risks on "Loans and advances - Customers" of the Group before consolidation adjustments by total net amount per customer in 2018 and 2017 is the following:

	Thousands of euros					
	2018			2017		
	Risk	Distribution (%)	Of which: doubtful assets	Risk	Distribution (%)	Of which: doubtful assets
Over 5,000	68,015	4.07	-	59,273	3.87	-
3,000 to 5,000	22,935	1.37	3,556	20,266	1.32	*10,201*
1,000 to 3,000	494,675	29.56	44,404	420,475	27.40	*51,446*
500 to 1,000	389,027	23.25	15,350	343,757	22.40	*20,453*
300 to 500	198,630	11.87	9,552	197,802	12.89	*11,698*
100 to 300	358,388	21.42	18,084	351,272	22.89	*19,031*
50 to 100	87,420	5.23	5,144	86,309	5.63	*5,671*
10 to 50	44,005	2.63	3,157	44,994	2.93	*2,477*
Up to 10	10,098	0.60	639	10,304	0.67	*698*
Total	1,673,193	100.00	99,886	1,534,452	100.00	*121,675*

The segmentation of the Group’s loan book by type of guarantee received is as follows:

	%	
	2018	2017
Mortgage guarantees	82	83
Other forms of security	2	4
Public sector	2	-
Personnel	14	13

The breakdown of the credit risk exposure relating to collateral, excluding balances assessed to be impaired at December 31, 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Collateral	1,403,486	1,224,372
Collateral	651,736	576,061
Other mortgaged assets	751,750	648,311
Borrowers with collateralized debt	64,049	61,648
Borrowers with monetary guarantees	11,897	11,477
Securities pledged as collateral	8,464	10,714
Other borrowers with collateralized debt	43,688	39,457
Total	1,467,535	1,286,020

At December 31, 2018 the fair value of aggregate guarantees received exceeded that of the loans secured, In the case of mortgage guarantees, the portfolio's average LTV is 61.65% (2017: 62.54%), which is calculated based on the relationship between pending capital and value at the concession or renewal date.

Doubtful debtors and the coverage ratio

The Parent Entity’s non-performing loan (NPL) ratio and the corresponding NPL coverage ratio are as follows:

	%	
	2018	2017
NPL ratio	5.76	7.56
NPL coverage ratio	54.56	56.10

The Parent Entity's default ratio by segments is as follows:

	%	
	2018	2017
Companies	78.44	82.50
Private customers, mortgage loan home purchases	7.19	3.93
Private customers, other loans, other guarantees	11.89	11.53
Real estate promoters	2.48	2.04

7.1.1 Distribution of risk by type of activity and geographical area

The following table shows the distribution of loans and advances to other debtors by activity at December 31, 2018 and 2017:

	Thousands of euros			Secured loans, Loan to value (f)				
2018	Total	Of which: Secured by property (b)	Of which: Remaining guarantees (b)	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public administrations	-	-	-	-	-	-	-	-
Other government agencies and individual companies (financial business activities)	6,432	-	-	-	-	-	-	-
Non-financial companies and individual companies (non- financial business activities)	1,157,486	293,341	724,157	380,316	230,122	357,945	38,217	10,898
Construction and real estate development (land included) (d)	4,925	4,857	-	1,970	2,538	-	-	349
Civil engineering work	-	-	-	-	-	-	-	-
Other purposes	1,152,561	288,484	724,157	378,346	227,584	357,945	38,217	10,549
Large companies (e)	15,943	9,454	1,390	791	5,419	4,634	-	-
SMEs and individual entrepreneurs (e)	1,136,618	279,030	722,767	377,555	222,165	353,311	38,217	10,549
Remaining homes (f) (by the purposes) (g)	480,606	403,604	8,300	137,127	122,904	136,122	7,836	7,915
Homes	349,173	344,327	1,646	100,661	106,983	125,695	5,809	6,825
Consumption	7,085	812	195	844	63	47	23	30
Other purposes	124,348	58,465	6,459	35,622	15,858	10,380	2,004	1,060
TOTAL	1,644,524	696,945	732,457	517,443	353,026	494,067	46,053	18,813
MEMORANDUM ITEM								
Refinancing, refinanced, and restructured transactions	*120,064*	*61,893*	*55,978*	*63,785*	*21,765*	*12,602*	*12,396*	*7,323*
2017								
Public administrations								
Other government agencies and individual companies (financial business activities)	6,417	-	-	-	-	-	-	-
Non-financial companies and individual companies (non- financial business activities)	1,041,156	256,494	632,670	344,553	207,474	273,439	47,520	16,178
Construction and real estate development (land included) (d)	8,522	4,478	-	1,361	2,712	55	5	345
Civil engineering work	-	-	-	-	-	-	-	-
Other purposes	1,032,634	252,016	632,670	343,192	204,762	273,384	47,515	15,833
Large companies (e)	11,904	3,036	1,347	1,310	-	2,326	747	-
SMEs and individual entrepreneurs (e)	1,020,730	248,980	631,323	341,882	204,762	271,058	46,768	15,833
Remaining homes (f) (by the purposes) (g)	457,062	385,618	6,467	121,750	116,159	132,693	10,703	10,780
Homes	327,937	322,805	2,011	91,329	98,219	118,934	7,290	9,044
Consumption	7,468	2,018	199	1,070	520	492	84	51
Other purposes	121,657	60,795	4,257	29,351	17,420	13,267	3,329	1,685
TOTAL	1,504,635	642,112	639,137	466,303	323,633	406,132	58,223	26,958
MEMORANDUM ITEM								
Refinancing, refinanced, and restructured transactions	*137,219*	*69,063*	*64,480*	*57,094*	*27,664*	*18,546*	*17,577*	*12,662*

(a) The definition of loans to customers is that used to draw up the balance sheet, The table above includes all transactions of this nature, regardless of the heading under which they are presented for balance sheet purposes, other than "Non-current assets and disposal groups classified as held for sale", The amounts shown reflect the carrying amounts of the transactions, i,e,, they are presented net of impairment provisions and allowances,

(b) Includes the carrying amount of all transactions secured by properties or other collateral, regardless of their loan-to-value percentages or legal form (mortgage, finance lease, reverse repurchase agreements, etc,),

(c) The loan-to-value is obtained by dividing the carrying amount of each exposure as at the reporting date by the value of the underlying collateral as of the latest appraisal or valuation date,

(d) This heading includes all the activities related to the construction and development of real estate, including loans to finance the purchase of land for property development purposes, irrespective of the counterparty's sector or main economic activity,

(e) Non-financial corporates are classified as "Large enterprises" or "SMEs" in accordance with the definitions contained in Commission Recommendation 2003/361/EC, of May 6, 2003, concerning the definition of micro-, small- and medium-sized enterprises, The activity of individual entrepreneurs is that performed by natural persons in the course of performing their business activities,

(f) Households, including non-profit institutions serving households but excluding the business activity of individual entrepreneurs,

(g) Loans are classified by their purpose using the criteria stipulated in rule 69.2,e) of Bank of Spain Circular 4/2017, The following table shows the concentration of risks by activity and geographical area, in Spain, at December 31, 2018 and 2017:

	Thousands of euros				
2018	TOTAL (a)	Spain	Other EU countries	Americas	Rest of the world
Central banks and credit institutions	303,545	290,753	10,777	2,015	-
Government agencies	782,755	593,391	189,364	-	-
Central Administration	607,414	418,050	189,364	-	-
Other	175,341	175,341	-	-	-
Other government agencies and individual companies (financial business activities)	416,480	311,585	104,895	-	-
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	1,321,349	1,288,867	32,253	229	-
Constructions and property developments (land included) (b)	4,925	4,925	-	-	-
Civil engineering construction	-	-	-	-	-
Other	1,316,424	1,283,942	32,253	229	-
Large enterprises (c)	122,816	106,205	16,611	-	-
SMEs and individual entrepreneurs	1,193,608	1,177,737	15,642	229	-
Other households (by the purposes) (d)	489,741	465,663	5,451	9,802	8,825
Housing	349,175	327,501	5,186	7,966	8,522
Consumer	7,094	6,972	21	73	28
Other	133,472	131,190	244	1,763	275
TOTAL	3,313,870	2,950,259	342,740	12,046	8,825

	Thousands of euros									
		AUTONOMOUS COMMUNITIES (REGIONAL GOVERNMENTS)								
2018	TOTAL	Andalusia	Aragon	Asturias	Balearic Islands	The Canary Islands	Cantabria	Castille – La Mancha	Castille and Leon	Catalonia
Central banks and credit institutions	290,753	-	-	-	-	-	2,830	-	-	-
Government agencies	593,391	-	5,109	-	-	-	-	-	-	-
Central Administration	418,050									
Other	175,341	-	5,109	-	-	-	-	-	-	-
Other government agencies and individual companies (financial business activities)	311,585	-	-	-	-	-	-	-	-	4,468
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	1,288,867	296,703	30,192	34,381	25,240	78,916	12,866	42,691	58,266	150,463
Constructions and property developments (land included) (b)	4,925	-	-	-	-	-	-	-	-	349
Civil engineering construction	-	-	-	-	-	-	-	-	-	-
Other	1,283,942	296,703	30,192	34,381	25,240	78,916	12,866	42,691	58,266	150,114
Large enterprises (c)	106,205	971	-	-	-	28	-	-	2,533	1,491
SMEs and individual entrepreneurs	1,177,737	295,732	30,192	34,381	25,240	78,888	12,866	42,691	55,733	148,623
Other households (by the purposes) (d)	465,663	34,557	1,947	3,980	5,268	6,960	41,265	6,737	6,846	36,244
Housing	327,501	25,690	1,567	1,745	4,727	5,590	2,323	5,741	5,869	23,852
Consumer	6,972	790	12	170	151	243	38	188	130	595
Other	131,190	8,077	368	2,065	390	1,127	38,904	808	847	11,797
TOTAL	2,950,259	331,260	37,248	38,361	30,508	85,876	56,961	49,428	65,112	191,175

	Thousands of euros								
	AUTONOMOUS COMMUNITIES (REGIONAL GOVERNMENTS)								
2018	Extremadura	Galicia	Madrid	Murcia	Navarre	Autonomous Community of Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and credit institutions	-	-	256,581	-	-	24,806	6,536	-	-
Government agencies	5,416	-	77,510	11,139	271	61,354	-	14,542	-
Central Administration									
Other	5,416	-	77,510	11,139	271	61,354	-	14,542	-
Other government agencies and individual companies (financial business activities)	-	-	307,117	-	-	-	-	-	-
Non-financial companies and individual companies (non-financial business activities) (by the purposes)	33,138	27,224	391,929	22,422	-	57,477	26,926	-	33
Constructions and property developments (land included) (b)	-	-	4,576	-	-	-	-	-	-
Civil engineering construction	-	-	-	-	-	-	-	-	-
Other	33,138	27,224	387,353	22,422	-	57,477	26,926	-	33
Large enterprises (c)	1	-	101,181	-	-	-	-	-	-
SMEs and individual entrepreneurs	33,137	27,224	286,172	22,422	-	57,477	26,926	-	33
Other households (by the purposes) (d)	3,090	5,345	294,496	3,440	31	9,335	3,536	2,586	-
Housing	2,193	2,889	230,760	1,812	22	7,327	2,850	2,544	-
Consumer	246	49	4,034	77	6	74	168	1	-
Other	651	2,407	59,702	1,551	3	1,934	518	41	-
TOTAL	41,644	32,569	1,327,633	37,001	302	152,972	36,998	17,128	33

(a) The definition of risk for purposes of this table includes the following items from the published balance sheet: Deposits at credit institutions Loans and advances to customers, debt securities, equity instruments, trading derivatives, hedging derivatives, investments in subsidiaries, jointly controlled entities and associates and contingent exposures,

The amount recognized for the assets is the carrying amount of the transactions, that is, after deducting impairment losses recognized for the hedging of specific transactions, The impairment losses of a group of assets that cannot be assigned to specific transactions are recognized under "Impairment losses on assets not attributed to specific transactions,"

Distribution of activity by geographical areas is carried out based on the country or autonomous community where the borrowers, securities issuers, and counterparties to derivatives and contingent exposures are resident,

(b) This balance shows all the activities related to construction and development of property, including that related to the financing of land for property development,

(c) Non-financial companies are classified under "Large companies" and "SMEs" in accordance with the applicable definition for the latter for purposes of calculating equity, Activities of individual entrepreneurs are considered to be those carried out by natural persons when performing their business activities,

(d) The activities of homes and non-profit institutions providing services to homes are classified based on their purpose in accordance with the criteria established in standard 69.2,e) of Bank of Spain Circular 4/20017,

2017	TOTAL (a)	Spain	Other EU countries	Americas	Rest of the world
	Thousands of euros				
Central banks and credit institutions	272,009	264,401	2,907	4,701	-
Government agencies	786,764	691,245	95,519	-	-
Central Administration	625,588	530,069	95,519	-	-
Other	161,176	161,176	-	-	-
Other government agencies and individual companies (financial business activities)	396,482	330,602	65,313	567	-
Non-financial companies and individual companies (non-financial business activities) (by the purposes)	1,191,510	1,173,142	18,368	-	-
Constructions and property developments (land included) (b)	8,522	8,522	-	-	-
Civil engineering construction	-	-	-	-	-
Other	1,182,988	1,164,620	18,368	-	-
Large enterprises (c)	109,800	92,653	17,147	-	-
SMEs and individual entrepreneurs	1,073,188	1,071,967	1,221	-	-
Other households (by the purposes) (d)	470,499	453,908	5,359	6,608	4,624
Housing	327,937	313,129	5,078	5,463	4,267
Consumer	7,469	7,390	23	36	20
Other	135,093	133,389	258	1,109	337
TOTAL	3,117,264	2,913,298	187,466	11,876	4,624

		Thousands of euros									
		AUTONOMOUS COMMUNITIES (REGIONAL GOVERNMENTS)									
2017	TOTAL	Andalusia	Aragon	Asturias	Balearic Islands	The Canary Islands	Cantabria	Castille – La Mancha	Castille and Leon	Catalonia
Central banks and credit institutions	264,401	4,246	406	1,070	-	41	2,932	-	8	28,234
Government agencies	691,245	-	5,224	-	-	-	-	-	-	-
Central Administration	530,069	-	-	-	-	-	-	-	-	-
Other	161,176	-	5,224	-	-	-	-	-	-	-
Other government agencies and individual companies (financial business activities)	330,602	-	-	-	-	-	-	-	-	4,571
Non-financial companies and individual companies (non- financial business activities) (by the purposes)	1,173,142	268,264	25,452	28,560	20,268	76,694	10,210	36,927	51,279	133,794
Constructions and property developments (land included) (b)	8,522	-	-	-	-	-	-	-	-	345
Civil engineering construction	-	-	-	-	-	-	-	-	-	-
Other	1,164,620	268,264	25,452	28,560	20,268	76,694	10,210	36,927	51,279	133,449
Large enterprises (c)	92,653	514	-	-	-	33	-	-	2,300	1,347
SMEs and individual entrepreneurs	1,071,967	267,750	25,452	28,560	20,268	76,661	10,210	36,927	48,979	132,102
Other households (by the purposes) (d)	453,908	31,050	2,408	2,913	3,705	5,057	39,488	6,085	6,577	34,775
Housing	313,129	24,957	1,029	1,640	3,579	4,395	2,647	4,932	6,285	23,597
Consumer	7,390	994	7	193	5	86	41	113	95	623
Other	133,389	5,099	1,372	1,080	121	576	36,800	1,040	197	10,555
TOTAL	2,913,298	303,560	33,490	32,543	23,973	81,792	52,630	43,012	57,864	201,374

	Thousands of euros								
	AUTONOMOUS COMMUNITIES (REGIONAL GOVERNMENTS)								
2017	Extremadura	Galicia	Madrid	Murcia	Navarre	Autonomous Community of Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and credit institutions	54	241	204,909	469	-	11,600	10,191	-	-
Government agencies	5,585	-	76,335	11,498	281	47,476	-	14,777	-
Central Administration	-	-	-	-	-	-	-	-	-
Other	5,585	-	76,335	11,498	281	47,476	-	14,777	-
Other government agencies and individual companies (financial business activities)	-	-	326,031	-	-	-	-	-	-
Non-financial companies and individual companies (non-financial business activities) (by the purposes)	33,084	25,706	369,638	21,183	-	49,516	22,530	-	37
Constructions and property developments (land included) (b)	-	-	8,177	-	-	-	-	-	-
Civil engineering construction	-	-	-	-	-	-	-	-	-
Other	33,084	25,706	361,461	21,183	-	49,516	22,530	-	37
Large enterprises (c)	-	970	87,489	-	-	-	-	-	-
SMEs and individual entrepreneurs	33,084	24,736	273,972	21,183	-	49,516	22,530	-	37
Other households (by the purposes) (d)	2,755	7,004	298,761	2,055	30	8,669	2,274	301	1
Housing	2,293	2,512	223,885	1,596	22	7,435	2,052	273	-
Consumer	260	55	4,725	45	4	92	51	-	1
Other	202	4,437	70,151	414	4	1,142	171	28	-
TOTAL	41,478	32,951	1,275,674	35,205	311	117,261	34,995	15,078	38

(b) The definition of risk for purposes of this table includes the following items from the published balance sheet: Deposits at credit institutions Loans and advances to customers, debt securities, equity instruments, trading derivatives, hedging derivatives, investments in subsidiaries, jointly controlled entities and associates and contingent exposures,

The amount recognized for the assets is the carrying amount of the transactions, that is, after deducting impairment losses recognized for the hedging of specific transactions, The impairment losses of a group of assets that cannot be assigned to specific transactions are recognized under "Impairment losses on assets not attributed to specific transactions,"

Distribution of activity by geographical areas is carried out based on the country or autonomous community where the borrowers, securities issuers, and counterparties to derivatives and contingent exposures are resident,

(b) This balance shows all the activities related to construction and development of property, including that related to the financing of land for property development,

(c) Non-financial companies are classified under "Large companies" and "SMEs" in accordance with the applicable definition for the latter for purposes of calculating equity, Activities of individual entrepreneurs are considered to be those carried out by natural persons when performing their business activities,

(d) The activities of homes and non-profit institutions providing services to homes are classified based on their purpose in accordance with the criteria established in standard 69.2,e) of Bank of Spain Circular 4/2017, 7.1.2 Disclosures regarding the Group's exposure to the real estate development and construction sectors

Information on exposure to the real estate development and construction sectors

General Group policy is to avoid entering into real estate financing, except in the case of small transactions which do not involve a large capital contribution. Nonetheless, certain transactions were financed for companies investing in real estate; we therefore have considered them as being exposed to real estate risk.

The amount of real estate land under considered normal circumstances totals €1.7 million at December 31, 2018 (2017 €1.8 million).

Regarding the remaining amount of risk, a large percentage relates to loans with mortgage collateral; no additional significant losses are foreseen. Regular meetings are held with debtors to determine the sales/rental performance.

The following table shows aggregate figures on the volume of financing extended by Banco Caminos Group entities at December 31, 2018 and 2017, for the purpose of funding construction and real estate development activities, along with associated credit risk provisioning at that dates:

	Thousands of euros		
2018	Gross carrying amount	Surplus of gross exposure over the maximum recoverable amount of effective collateral	Accumulated impairment charges
Finance granted for construction and property development (including land) (business in Spain)	7,620	1,030	(2,694)
Of which: non-performing / doubtful	*3,017*	*206*	*(2,678)*
Memorandum item:			
Defaulted loans	*(158)*		

Memorandum item:	*Thousands of euros*
Total customer loans excluding public (business in Spain) (carrying amount)	*1,660,663*
Total assets (all businesses) (carrying amount)	*3,400,499*
Impairment provisions and allowances for exposures classified as standard (all businesses)	*11,479*

2017	Thousands of euros Gross carrying amount	 Surplus of gross exposure over the maximum recoverable amount of effective collateral	 Accumulated impairment charges
Finance granted for construction and property development (including land) (business in Spain)	11,363	1,205	(2,766)
Of which: non-performing / doubtful	*3,192*	*294*	*(2,766)*
<u>Memorandum item:</u>			
Defaulted loans	-		

<u>Memorandum item:</u>	*Thousands of euros*
Total customer loans excluding public (business in Spain) (carrying amount)	*1,523,687*
Total assets (all businesses) (carrying amount)	*3,205,239*
Impairment provisions and allowances for exposures classified as standard (all businesses)	*18,875*

The following table provides a breakdown of loans intended for construction and property development at December 31, 2018 and 2017, pertaining to transactions reported by the Banco Caminos Group's credit institutions (businesses in Spain):

	Financing: Gross amount Thousands of euros 2018	 2017
Without mortgage collateral	2,542	4,113
With mortgage collateral (broken down by the type of asset received as collateral) (b)	5,078	7,250
Buildings and other finished construction (c)	555	3,193
Residences	-	3,193
Other	555	-
Buildings and other construction in progress (c)	2,864	2,284
Residences	-	31
Other	2,864	2,253
Land	1,659	1,773
Developed land	1,659	1,773
Other land	-	-
Total	7,620	11,363

(a) Amount prior to the deduction of accumulated impairment losses, if any.

(b) Includes all transactions secured by mortgages, regardless of their legal form of the guarantee or loan-to-value readings.

(c) If a building serves more than one purpose. i.e., residential and other uses, the related financing has been included in the category representing the main use given to it.

Home purchase loans (businesses in Spain)

The table below breaks down the loans provided by the Group to finance home acquisitions at year-end 2018 and 2017 (businesses in Spain):

	Thousands of euros			
	2018		2017	
	Total gross (a)	Of which: Doubtful	Total gross (a)	Of which: Doubtful
Residential mortgage loans	340,832	*7,185*	324,638	6,363
Without mortgage collateral	3,292	*298*	3,510	321
With mortgage collateral (b)	337,540	*6,887*	321,128	6,042

(a) Amount prior to the deduction of accumulated impairment losses, if any.

(b) Includes all transactions secured by mortgages, regardless of the loan-to-value readings.

The following table provides a breakdown of mortgage-backed housing loans granted by the Entity to households at December 31, 2018 and 2017 on the basis of their loan-to-value ratio (LTV, value being the latest available appraisal) (businesses in Spain):

	Loan to value (a) - Thousands of euros					
2018	LTV ≤ 40%	40% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 100%	LTV > 100%	Total
Gross amount	94,290	106,117	124,390	5,473	7,270	337,540
Of which: doubtful	*456*	-	*555*	*1,408*	*4,468*	*6,887*
2017						
Gross amount	86,011	98,048	118,665	6,776	11,628	321,128
Of which: doubtful	*1,385*	*879*	*792*	*991*	*1,995*	*6,042*

(a) The loan-to-value ratio (LTV ratio) is the result of dividing the gross carrying amount of the transaction by the latest available appraisal value.

Disclosures related to real estate assets foreclosed or received in lieu of debt repayment (businesses in Spain)

The following is a breakdown at both year-ends of the assets received in lieu of debt repayment and the equity interests in and financing granted to companies holding these assets (businesses in Spain):

	Thousands of euros			
	2018		2017	
	Gross amount	Impairment allowance	Gross amount	Impairment allowance
Properties from financing granted to builders and developers (a)	-	-	-	-
Finished buildings	-	-	-	-
Residences	-	-	-	-
Other	-	-	-	-
Buildings under construction	-	-	-	-
Residences	-	-	-	-
Other	-	-	-	-
Land	-	-	-	-
Urban land	-	-	-	-
Other land	-	-	-	-
Properties from foreclosed mortgage loans	8,487	(691)	*4,668*	*(696)*
Remaining assets receive in settlement of debt (b)	7,912	(2,494)	*9,262*	*(2,750)*
Capital instruments foreclosed or received in payment of debts	1,233	(425)	-	-
Equity instruments of companies holding real estate assets foreclosed or received in payment of debt	-	-	-	-
Financing to entities that hold foreclosed real estate assets or received as debt payments	*1,877*	-	*2,772*	-

(a) Includes assets foreclosed or received in payment of debt in respect of financing granted by the Entity related to its businesses in Spain and interests in the equity and debt of entities that hold such assets.

(b) Includes the real estate assets that do not derive from the financing of construction or real estate development nor the provision of mortgage loans to households to fund home purchases.

As indicated in Note 14, all of the properties foreclosed by Banco Caminos, S.A. are held by Maxlan, S.A.U. The properties deriving from the write-off of loans awarded by Bancofar, S.A. are registered in the latter's name.

It is Group policy to try to sell these properties (a process helped by the fact that none of them are developments under construction) and if their sale is not feasible to rent them out.

Almost all of the housing units owned have been rented out so that this situation is not undermining the Group's earnings.

7.1.3 Refinancing and restructuring policy for loans and credits

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

– A refinancing transaction is one in which, regardless of the holder or guarantees, funds are granted or used for economic or legal reasons related to the holder's financial difficulties to cancel one or various facilities granted by the entity itself, or others from the group, to the holder or another company or other companies from its economic group, or by virtue of which said facilities are fully or partially brought up to date in pending payments with a view to facilitating debt payment (principal and interest) by the holders of the cancelled or refinanced facilities since they are unable to, or it is expected that they will be unable to, comply with the established deadlines and conditions.

– A refinanced transaction is one in which payments are fully or partially brought up to date as a consequence of a refinancing transaction carried out by the Parent entity itself or another entity from its economic group.

– A restructuring transaction is one which, for economic or legal reasons related to financial difficulties of the holder, modifies the financial conditions with a view to facilitating payment of the debt (principal and interest) since the holder is unable to, or is expected to be unable to, comply with the established deadlines and conditions, even if said modification was foreseen in the contract. At any rate, transactions are considered to involve restructuring when they involve a haircut or debt-for-equity swap, or when conditions are modified to extend maturity, change the amortization schedule to lower payments in the short term or reduce their frequency, or establish or lengthen the grace period for the principal or interest, or both, except when it is possible to prove that the conditions are being modified for reasons other than financial difficulties of the holder and are similar to those applied in the market for transactions granted to clients with a similar risk profile at the date of modification.

– A transaction is considered to involve renewal when it formally substitutes another transaction granted earlier by the entity itself, without the borrower having, or it being expected that they may have, financial difficulties in the future. In other words, the transaction is entered into for reasons other than refinancing.

– A transaction is considered to involve renegotiation when the financial conditions are modified and the borrower does not have, and is not expected to have, financial difficulties. In other words, conditions are modified for reasons other than restructuring.

At any rate, to qualify a transaction as a renewal or renegotiation, the holders must have the capacity at the renewal or renegotiation date to carry out transactions in the market for similar amounts and under similar financial conditions to those offered them by the Entity, which in turn must also be similar to the amounts and conditions granted by the Entity to clients with a similar risk profile.

The general guiding principle for the Parent entity is not to carry out refinancing or restructuring transactions unless guarantees are increased or the borrower at least settles the loan interest.

When these new guarantees are provided, their efficacy must be taken into account.

The decisions to refinance or restructure are based on a case-by-case analysis of the transaction, and are submitted to the competent body for approval.

These refinancing and restructuring decisions are periodically reviewed for monitoring purposes.

The breakdown of refinanced and restructured transactions at December 31, 2018 and 2017 is provided below:

	TOTAL						
	Without collateral		With collateral				
					Maximum amount of effective collateral		
2018 (Amounts in thousands of euros)	No, of transactions	Gross carrying amount	No, of transactions,	Gross carrying amounts	Property collateral	Other collateral	Accumulated impairment losses
Credit institutions	-	-	-	-	-	-	-
Public sector	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business)	-	-	-	-	-	-	-
Non-financial institutions and individual entrepreneurs (non-financial business)	34	4,657	256	110,942	28,371	73,202	(27,869)
Of which: Construction and property development (including land)	*1*	*2,472*	-	-	-	-	*(2,472)*
Other households	65	1,623	228	34,184	30,903	157	(3,472)
	99	6,280	484	145,126	59,274	73,359	(31,341)
Additional information							
Financing classified as non-current assets and disposal groups that are classified as held for sale	-	-	-	-	-	-	-

	Of which: DOUBTFUL						
	Without collateral		With collateral				
					Maximum amount of effective collateral		
2018 (Amounts in thousands of euros)	No, of transactions	Gross carrying amount	No, of transactions,	Gross carrying amounts	Property collateral	Other collateral	Accumulated impairment losses
Credit institutions	-	-	-	-	-	-	-
Public sector	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business)	-	-	-	-	-	-	-
Non-financial institutions and individual entrepreneurs (non-financial business)	21	4,126	100	38,647	9,120	26,456	(24,267)
Of which: Construction and property development (including land)	*1*	*2,472*	-	-	-	-	*(2,472)*
Other households	39	1,149	52	9,031	6,678	157	(3,013)
	60	5,275	152	47,678	15,798	26,613	(27,280)
Additional information							
Financing classified as non-current assets and disposal groups that are classified as held for sale	-	-	-	-	-	-	-

2017 (Amounts in thousands of euros)	TOTAL						
	Without collateral		With collateral				
					Maximum amount of effective collateral		
	No, of transactions	Gross carrying amount	No, of transactions,	Gross carrying amounts	Property collateral	Other collateral	Accumulated impairment losses
Credit institutions	-	-	-	-	-	-	-
Public sector	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business)	-	-	-	-	-	-	-
Non-financial institutions and individual entrepreneurs (non-financial business)	38	8,754	280	124,512	31,493	85,518	(32,394)
Of which: Construction and property development (including land)	*1*	*2,472*	-	-	-	-	*(2,472)*
Other households	62	1,692	238	38,412	31,963	5,379	(3,758)
	100	10,446	518	162,924	63,456	90,897	(36,152)
Additional information							
Financing classified as non-current assets and disposal groups that are classified as held for sale	-	-	-	-	-	-	-

2017 (Amounts in thousands of euros)	Of which: DOUBTFUL						
	Without collateral		With collateral				
					Maximum amount of effective collateral		
	No, of transactions	Gross carrying amount	No, of transactions,	Gross carrying amounts	Property collateral	Other collateral	Accumulated impairment losses
Credit institutions	-	-	-	-	-	-	-
Public sector	-	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business)	-	-	-	-	-	-	-
Non-financial institutions and individual entrepreneurs (non-financial business)	22	8,058	105	44,272	10,105	31,385	(29,145)
Of which: Construction and property development (including land)	*1*	*2,472*	-	-	-	-	*(2,472)*
Other households	35	1,137	52	10,774	8,417	1,968	(3,349)
	57	9,195	157	55,046	18,522	33,353	(32,494)
Additional information							
Financing classified as non-current assets and disposal groups that are classified as held for sale	-	-	-	-	-	-	-

The table below discloses the amounts of transactions at December 31, 2018 and 2017 that, subsequent to their refinancing or restructuring, were classified as doubtful during the reporting period:

	Mortgage guarantee (fully secured)		Other collateral		Without collateral	
	No, of transactions	Gross carrying amount	No, of transactions	Gross carrying amount	No, of transactions	Gross carrying amount
2018						
Credit institutions	-	-	-	-	-	-
Public sector	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business)	-	-	-	-	-	-
Non-financial institutions and individual entrepreneurs (non-financial business)	6	453	-	-	3	124
Of which: Construction and property development (including land)	-	-	-	-	-	-
Other households	4	618	-	-	5	112
Total	10	1,071	-	-	8	236
2017						
Credit institutions	-	-	-	-	-	-
Public sector	-	-	-	-	-	-
Other financial institutions and individual entrepreneurs (financial business)	-	-	-	-	-	-
Non-financial institutions and individual entrepreneurs (non-financial business)	7	1,190	5	2,227	5	662
Of which: Construction and property development (including land)	-	-	-	-	-	-
Other households	4	1,261	-	-	5	165
Total	11	2,451	5	2,227	10	827

7.1.4 Practices for ensuring the responsible grant of consumer loans and credit facilities

The Bank has a Credit Risk Policies Manual, the latest update to which was approved by its Board of Directors on June 28, 2018.

This document is adapted for Spanish Law 16/2011 on Consumer Credit Agreements, Ministerial Order EHA/2899/2011 on banking service transparency and customer protection, and Bank of Spain Circular 5/2012 (of June 27, 2012), as amended by Bank of Spain Circular 4/2015 (July 29, 2015) on banking service transparency and responsible loan granting on the part of credit institutions and payment service providers.

The Group Risk Control Department is tasked with updating these policies and procedures as required by evolving circumstances and the needs unfolding in the course of the pursuit of the Bank's lending business and in light of the broader economic and financial situation and prevailing applicable regulations.

7.2 Market risk

Market risk includes risks resulting from possible negative variances in interest rates on assets and liabilities, exchange rates applicable to significant balance sheet and income statement figures or off-balance sheet figures, and market prices of financial instruments held for trading.

The sophistication of the monitoring and measuring processes is in line with the risk assumed by the Group; therefore, it considers that market risk management is adequate.

None of the financial instruments traded in active markets held by the Group at either year-end became relatively illiquid during the reporting periods.

7.2.1 Interest rate risk

This risk is understood as the sensitivity of interest income to changes in market interest rate.

In order to adequately measure interest rate risk, the Banco Caminos Group assesses its main sources - repricing and rate curve risk, among other factors - which it in turn approaches from two complementary standpoints: the impact on net interest margin (short term) and on economic value (long term).

The management objective is to foster stability in both the net interest margin and the Group's value in the event of movements in market rates, while respecting the established solvency and other regulatory limits.

The Group's efforts to control and monitor management of its structural interest rate risk is based on a universe of metrics and tools that enable correct oversight of its risk profile.

Sensitivity to interest-rate risk

The table below reflects internal sensitivity analysis performed by the Bank at the consolidated level by modelling the sensitivity of its economic value and net interest margin to movements in interest rates as of December 31, 2018:

	Thousands of euros	
	Impact on economic value	Impact on economic value
200 basis point increase in Euribor	(8,099)	11,884
200 basis point decrease in Euribor	5,226	(533)

The Bank's estimates as of year-end 2017 were the following:

	Thousands of euros	
	Impact on economic value	Impact on economic value
200 basis point increase in Euribor	(9,706)	10,358
200 basis point decrease in Euribor	10,593	(186)

The above sensitivity analyses factor in the transactions outstanding at year-end, Given the financial situation in Spain and abroad, the sensitivity analysis was performed using the assumptions shown in the table above as it is not possible to reasonably estimate the probability of the various interest-rate scenarios.

7.2.2 Price risk

Price risk derives from exposure to adverse changes in market prices due to either factors specific to the financial instrument itself or factors affecting all market-traded instruments.

The Group's Treasury and Capital Markets divisions' performance in markets is geared to taking advantage of business opportunities which present themselves (financial assets and liabilities held for trading), and provide services to carry out transactions defined by the governing bodies responsible for the overall management of interest rate and liquidity risk which make up the entity's remaining portfolio (financial assets designated at fair value through profit or loss, portfolios at fair value through profit and loss, and held-to-maturity investments).

In order to carry out these functions, the financial instruments authorized by the Board and/or the Executive Committee have been used; the internal limits and procedures for measuring each product's risk, generally high volumes of liquid assets, within current market trends.

The Group's portfolio of held-for-trading assets and liabilities is not subject to capital requirements on account of price risk as the average balance falls below the thresholds stipulated in capital adequacy legislation and the profits made on this book derive from intra-day trading. In order to measure the Price Risk of all the Bank's portfolios, the Group utilizes control methodology established to monitor invested financial instruments, based on a daily behavioural price analysis, using objective and consistent methodology which is analyzed by the risks control group as well as a third party on a daily basis.

This is intended to find a short average life for the portfolio, in order to minimize the impact on equity as compared to its excess.

7.2.3 Currency risk

At year-end 2018, the aggregate amount of Group assets denominated in foreign currency stood at €15,515 thousand (2017: €13,604 thousand) and the aggregate amount of liabilities denominated in foreign currency stood at €15,466 thousand (2017: €10,702 thousand).

7.3 Liquidity risk

This risk refers to the possibility of the Entity encountering difficulty in having or raising sufficient funds at an adequate cost to meet its payment commitments.

Liquidity is a key factor in Banco Caminos' strategy; it is managed based on exhaustive daily control of the liquidity situation of the Parent Entity.

Management of liquidity risk is articulated as follows:

- Senior Management is ultimately responsible for its management.

- The Investment Committee continually analyses the target liquidity position and designs strategies to secure and/or anticipate the financing requirements deriving from the Entity's business activities, all of which underpinned by guidelines set by Senior Management and taking into special consideration the reports provided by the external expert engaged by the Assets and Liabilities Committee (ALCO).

- The Finantial Area is responsible for the daily management and the execution of the measures adopted by the Investment Comitee.

- The Global Risk Control Department is tasked with monitoring and controlling the established limits and reporting periodically on trends in the Groups liquidity.

Liquidity and financing decision-making is based on comprehension of the Groups' current situation (environment, strategy, balance sheet and liquidity statement), the future liquidity needs of its various businesses (liquidity projections) and the status of its sources of wholesale funding and access thereto.

The Group's aim is to guarantee the maintenance of sufficient levels of liquidity to cover its short- and long-term requirements from stable sources of funding, optimizing the impact of their cost on its income statement.

Throughout 2018, Banco Caminos' liquidity performance was shaped by:

- A high level of basic liquidity in order to achieve balanced exposure to liquidity risk, meaning term risk (short and long term) and risk in terms of the various sources of fund flows (inflows and outflows).

- Complying with the ratios laid down in applicable regulations, including the Liquidity Coverage Ratio (LCR), which at year-end was significantly above the minimum threshold.

- Holding an ample liquidity buffer in the form of last-resort funds in the event of heightened market stress, meaning times in which it is not possible to obtain financing at satisfactory prices or maturities.

- Increased reliance on the Bank of Spain's Credit Policy. At year-end 2018, the Group had pledged securities as collateral in the amount of €383 million (year-end 2017: €382 million) and the balance drawn down under the Credit Policy stood at €322 million (year-end 2017: €322 million). Note that the amounts disclosed in this section are those provided by the Bank of Spain (in turn obtained valuing the Eurocartera by ISIN and issuer credit rating) using different measurement criteria to those used for accounting purposes.

The breakdown of the Entity's basic liquidity position is as follows:

	Thousands of euros	
	2018	2017
Liquidity Banco Caminos	422,510	318,924
Deposits lent	*198,570*	-
Available debt	*210,641*	*144,832*
Cash and cash equivalents balance	*13,299*	*174,092*
Bank of Spain resources + credit institutions	64,005	60,261
Bank of Spain credit facility (Eurosystem)	*64,005*	*60,261*
Credit line with credit institutions	-	-
Treasury bills, Group companies	-	-
Total balance	486,515	379,185
Available-for-sale fixed-income securities	31,702	88,904
Total balance (including portfolio)	518,217	468,089

Below is a breakdown of the Group's financial instruments by residual maturity periods as of December 31, 2018 and 2017. The maturity dates considered when preparing the breakdown below are the expected maturity dates as per contractual conditions. The breakdown depicts a short-term liquidity gap for the Group, a common feature of the retail banking business; however, historic experience with these deposits shows stable performance over time:

	Thousands of euros								
2018	Upon demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified and unclassified maturity	Total
Assets									
Cash, cash balances at central banks and other demand deposits	239,451	-	-	-	-	-	-	-	239,451
Financial assets at amortised cost	26,871	2,149	9,899	906	71,213	95,467	1,471,288	-	1,677,793
Debt securities	35,447	10,346	32,560	114,858	50,583	614,030	377,370	103,577	1,338,771
Other assets by maturity date	-	-	-	-	-	-	-	-	-
Total	301,769	12,495	42,459	115,764	121,796	709,497	1,848,658	103,577	3,256,015
Liabilities									
Deposits from central banks	-	-	-	-	-	318,966	-	-	318,966
Deposits from credit institutions	7,054	-	-	-	8,500	-	-	39,588	55,142
Deposits from other creditors	1,203,881	328,796	240,937	154,815	318,643	384,025	58,214	32,141	2,721,452
Other liabilities by maturity date	15,346	-	-	-	-	11,056	-	6,384	32,786
Total	1,226,281	328,796	240,937	154,815	327,143	714,047	58,214	78,113	3,128,346
Gap	(924,512)	(316,301)	(198,478)	(39,051)	(205,347)	(4,550)	1,790,444	25,464	127,669
Accumulated gap	(924,512)	(1,240,813)	(1,439,291)	(1,478,342)	(1,683,689)	(1,688,239)	102,205	127,669	

2017	Upon demand	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified and unclassified maturity	Total
	Thousands of euros								
Assets									
Cash, cash balances at central banks and other demand deposits	220,162	-	-	-	-	-	-	-	220,162
Financial assets at amortised cost	68,006	3,958	9,300	73,892	94,960	876,912	396,659	-	1,523,687
Debt securities	46,271	-	72,527	3,128	114,484	659,325	406,177	-	1,301,912
Other assets by maturity date	9,314	-	-	-	-	-	-	-	9,314
Total	343,753	3,958	81,827	77,020	209,444	1,536,237	802,836	-	3,055,075
Liabilities									
Deposits from central banks	1,705	-	-	-	-	318,590	-	-	320,295
Deposits from credit institutions	42,705	-	-	-	-	-	-	-	42,705
Deposits from other creditors	1,067,769	275,502	196,293	278,641	275,544	382,417	60,330	-	2,536,496
Other liabilities by maturity date	36,382	-	-	-	-	3,410	-	-	39,792
Total	1,148,561	275,502	196,293	278,641	275,544	704,417	60,330	-	2,939,288
Gap	(804,808)	(271,544)	(114,466)	(201,621)	(66,100)	831,820	742,506	-	115,787
Accumulated gap	(804,808)	(1,076,352)	(1,190,818)	(1,392,439)	(1,458,539)	(626,719)	115,787	115,787	

In respect of the tables above, note that although the current and savings accounts held by customers at the Bank have been classified in accordance with their contractual terms as demand deposits, management estimates a longer actual settlement term for these liabilities.

7.4 Fair value of financial instruments

The tables below summarize the fair values of the Group's financial instruments at December 31, 2018 and 2017 by classes of financial assets and liabilities broken down into the following fair value hierarchy levels:

- Level 1: Financial instruments whose fair value was determined using market prices, with no modifications made.

- Level 2: Financial instruments whose fair value has been calculated using valuation techniques which reference quotations of similar instruments or inputs based on directly or indirectly observable market data.

- Level 3: Financial instruments whose fair value has been calculated using valuation techniques in which one of the inputs is not based on observable market data.

For fair value hierarchy determination purposes, an input is deemed significant when it is important to the measurement of fair value in its entirety.

The following table summarizes the carrying amounts of financial instruments based on their fair value hierarchy levels.

	Thousands of euros				
2018	Level 1	Level 2	Level 3	Total fair value	Total balance
ASSETS					
Cash, cash balances at central banks and other demand deposits	212,043	-	27,408	239,451	239,451
Financial assets held for trading	881	-	341	1,222	1,222
Financial assets designated at fair value through profit or loss	44,441	16,803	8,635	69,879	69,879
Financial assets at amortised cost	845,447	318,605	-	1,164,052	1,164,052
Held-to-maturity investments	-	149,132	1,677,241	1,826,373	1,819,309
EQUITY AND LIABILITIES					
Financial liabilities at amortized cost					
Deposits from central banks	-	-	318,966	318,966	318,966
Deposits from credit entities	-	-	55,142	55,142	55,142
Customer deposits	-	-	2,721,452	2,721,452	2,721,452
Other financial liabilities	-	-	32,786	32,786	32,786
2017					
ASSETS					
Cash, cash balances at central banks and other demand deposits	175,407	-	44,755	220,162	220,162
Financial assets held for trading	1,072	539	567	2,178	2,178
Financial assets designated at fair value through profit or loss	33,383	1,188,949	9,618	1,231,950	1,231,950
Financial assets at amortised cost	-	121,970	1,523,687	1,645,657	1,645,657
EQUITY AND LIABILITIES					
Financial liabilities at amortized cost					
Deposits from central banks	-	-	320,295	320,295	320,295
Deposits from credit entities	-	-	42,705	42,705	42,705
Customer deposits	-	-	2,536,496	2,536,496	2,536,496
Other financial liabilities	-	-	39,792	39,792	39,792

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

- In the event that an active market publishes observable quoted prices and that market is considered sufficiently deep, those prices are used to obtain the instruments' fair value.

- For instruments traded in an inactive market or for which there is no market, fair value is usually determined for initial recognition purposes using their acquisition cost. Subsequently, if their fair value cannot be reliably estimated by observing recent transactions in identical or similar instruments or on the basis of recent transaction prices, or using a valuation model in which all the variables are taken exclusively from market-observable inputs, the fair values shown in the tables above is based on their cost and is presented as “Level 3” for fair value hierarchy purposes.

- In the specific cases of financial assets classified as cash and deposits due from central banks and Financial assets at amortised cost and liabilities classified as financial liabilities at amortized cost, on the other, in the tables above, the Bank's management believes, on account of the nature of their interest rates, terms to maturity and counterparties, etc., that their carrying amounts (amortized cost) do not differ significantly from their fair values; accordingly, amortized cost is used as a proxy for their fair value.

No balances were transferred between levels 2 and 3 in either 2018 or 2017.

8. CASH, CASH BALANCES AT CENTRAL BANKS AND OTER DEMAND DEPOSITS

The breakdown of "Cash, cash balances at central banks and other demand deposits" as per the accompanying consolidated balance sheet as of December 31, 2018 and 2017 is the following:

	Thousands of euros	
	2018	2017
Cash	1,402	1,315
Balances with the Bank of Spain	210,641	174,092
Other demand deposits	27,408	44,755
Total	239,451	220,162

The balance of the current account at the Bank of Spain is used to comply with minimum cash ratio requirements.

During exercises 2018 and 2017 interests have been accrued on the account held at the Bank of Spain in the amount of €394 and €557 thousand euros (Note 25.1).

At year-end 2018 and 2017, the Group had "Other demand deposits" denominated in currencies other than the euro in the amount of €6,594 thousand and €5,739 thousand, respectively.

The average rate of interest earned on "Other demand deposits" was approximately 0.01% in both 2018 and 2017.

For the purpose of drawing up the statement of cash flows, the Bank has deemed "Cash, cash balances at central banks and other demand deposits" as cash.

9. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

The breakdown of these financial asset and liability consolidated balance sheet headings is the following:

	Thousands of euros			
	Assets		Liabilities	
	2018	2017	2018	2017
Debt securities	633	539	-	-
Equity instruments	248	1,072	-	-
Derivatives				
Derivative over securitized bond flows	341	567	-	-
Total	1,222	2,178	-	-

The breakdown of debt securities included in the financial assets held for trading portfolio is as follows:

	Thousands of euros	
	2018	2017
Credit institutions	-	41
Other resident sectors	633	498
Total	633	539

The breakdown of the equity instruments included in the financial assets held for trading portfolio is as follows:

	Thousands of euros	
	2018	2017
UCITS	248	1,072
Shares listed on official exchanges	-	-
Total	248	1,072

The maturity of the derivative contract written over securitized bond flows is linked to the loans extended by the Bank to TDA 20 Mixto, F.T.A, (Note 12.3). Also, the notional amount of the contract is linked to the outstanding balance of the loans extended to that securitization SPV by Banco Caminos.

10. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	Thousand of euros	
	2018	2017
Debt Instruments	33,381	-
Equity Instruments	36,498	-
Total	69,879	-

10.1 Debt Instruments

The detail of debt securities classified by counterparty is as follows:

	Thousand euros	
	2018	2017
Credit Institutions	14,964	-
Other resident sectors	18,417	-
Total	33,381	-

As of December 31, 2018, there were no debt securities denominated in foreign currencies in the "Non-trading financial assets mandatorily measured at fair value through profit or loss" portfolio.

At 31 December 2018 there were collateralized securities included in the "Non-trading financial assets mandatorily measured at fair value through profit or loss" portfolio amounting to €2,036 thousand relating to monetary policy and intraday financing.

The detail, by remaining maturity, of this heading is detailed in Note 6.3 on Liquidity risk.

10.2 Equity Instruments

This caption in the accompanying balance sheet includes the financial instruments issued by other entities, such as shares and participating interests, which are equity instruments for the issuer, except for those companies in which control is exercised or in which more than 20% ownership is held or those in which a lower percentage of ownership exercises significant influence. This chapter also includes holdings in collective investment institutions.

At 31 December 2018 and 2017, the breakdown of the balance of this heading, by sector of activity of the issuer, is as follows:

	Thousand euros	
	2018	2017
Participations in Collective Investment Institutions	28,474	-
Shareholdings in Venture Capital Entities	6,252	-
Other resident sectors	1,772	-
Total	36,498	-

At 31 December 2018 there were equity instruments denominated in foreign currencies amounting to €228 thousand (2017: €218 thousand).

11. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The breakdown of this consolidated balance sheet heading is the following:

	Thousands of euros	
	2018	2017
Debt securities	1,163,241	1,188,917
Equity instruments	811	43,033
Total	1,164,052	1,231,950

11.1 Debt securities

The breakdown of debt securities classified by counterparty is the following:

	Thousands of euros	
	2018	2017
Spanish general government	661,201	617,493
Credit institutions	32,000	53,300
Other resident sectors	422,593	349,933
Non-resident public sector	-	95,519
Other non-resident sectors	49,549	74,318
Impairment allowances	(2,102)	(1,646)
Total	1,163,241	1,188,917

At December 31, 2018, in the portfolio of financial assets at fair value with changes in other comprehensive income there were no debt securities, denominated in foreign currencies (2017: €5,336 thousand).

Interest accrued on debt securities in 2018 amounted to €16,652 thousand (2017: €20,077 thousand). The related average interest rate was 1.45% and 1.74% in 2018 and 2017 respectively.

Of these assets, the Group had sold €290,195 thousand to other creditors under repurchase agreements at December 31, 2018 (2017: €354,466 thousand). The assets sold are recognized under liabilities on the consolidated balance sheet for the amount contracted with the counterparty.

At December 31, 2018, there were securities serving as collateral for intra-day financial and monetary policy transactions included "Financial assets designated at fair value through profit or loss" amounting to €410,554 thousand (2017: €375,722 thousand).

The breakdown of this heading by residual maturity is set forth in Note 7.3.

11.2 Equity instruments

The breakdown of this heading as of December 31, 2018 and 2017, by issuer, is the following:

	Thousands of euros	
	2018	2017
Shareholdings of Collective Investment Institutions	32	33,383
Shareholdings of Venture Capital Entity	-	6,252
Other resident sectors	779	3,397
Total	811	43,032

At 31 December 2018 there were no equity instruments denominated in foreign currencies (2017: €218 thousand).

11.3 Impairment allowances

The following reflects impairment allowances for "Financial assets designated at fair value through profit or loss" recognized by the Group as of December 31, 2018 and 2017; the amounts for both years were included in the general provision:

	Thousands of euros	
	2018	2017
Opening Balance	(1,646)	(1,414)
Allowance recognized against profit or loss for the year	(456)	(232)
Closing Balance	(2,102)	(1,646)

11.4 Other comprehensive accumulated income

The breakdown of “Other comprehensive accumulated income” under “Equity” as of December 31, 2018 and 2017 recognized as a result of changes in the fair value of the assets in this category is as follows:

	Thousands of euros	
	2018	2017
Debt securities	16,163	22,706
Equity instruments	-	54
Total	16,163	22,760

12. FINANCIAL ASSETS AT AMORTISED COST

The breakdown of this consolidated balance sheet heading is the following:

	Thousands of euros	
	2018	2017
Debt Instruments	141,516	112,456
Loans and advances to credit institutions	17,130	-
Loans and advances - Customers	1,660,663	1,523,687
Total	1,819,309	1,636,143

12.1 Loans and advances – Customers

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

	Thousands of euros	
	2018	2017
Bonds and notes		
Spanish public administrations	121,554	73,752
Other resident sectors	20,062	39,025
Impairment losses	(100)	(321)
Total	141,516	112,456

All of the securities included in this portfolio were denominated in euros at both year-ends.

The interest accrued on debt securities recognized at amortized cost totaled €1,852 thousand in 2018 (2017: €2,184 thousand). The average rate of interest accrued on the securities in this portfolio was approximately 2.34% (2017: 2.24%).

Of the securities included in the portfolio of debt securities recognized at amortized cost, at year-end 2018, the Entity had temporarily loaned customers an effective amount of €95,147 thousand (year-end 2017: €3,362 thousand) and had pledged securities as collateral in the amount of €19,962 thousand (year-end 2017: €60,522 thousand). The breakdown of these securities by remaining term to maturity is provided in note 7.3.

The reconciliation of the opening and closing balances of impairment allowances recognized by the Group on the debt securities included in the portfolio of financial assets at amortized cost is provided in the table below:

	Thousands of euros	
	2018	2017
Initial Balance	(321)	(60)
Net provision charged to income for the year	221	(261)
Final Balance	(100)	(321)

12.2 Impairment losses

The detail of this caption is as follows:

	Thousands of euros	
	2018	2017
Term accounts	9,247	-
Other financial assets	7,883	-
Valuation adjustments		
Accrued interest	-	-
Total	17,130	-

At 31 December 2018 there were deposits at credit institutions in currencies other than the euro amounting to €8,546 thousand.

The detail, by remaining maturity, of this heading is detailed in Note 7.3.

12.3 Loans and advances to customers

The breakdown of these consolidated balance sheet headings, by type of transaction, credit status and counterparty, is as follows:

	Thousands of euros	
	2018	2017
Transaction and credit status:		
Central Administration	-	-
Commercial bills	48	7
Secured loans	1,467,535	1,286,020
Other term loans	149,967	174,913
Finance leases	62	297
Demand and sundry accounts	7,537	9,961
Other financial assets	9,959	17,418
Doubtful assets	99,886	121,675
Valuation adjustments	(74,331)	(86,604)
Total	1,660,663	1,523,687
Sector:		
Spanish general government	-	-
Other resident sectors	1,636,616	1,507,174
Other non-resident sectors	24,047	16,513
	1,660,663	1,523,687
Currency:		
Euro	1,660,663	1,523,687
Other currencies	-	-
Total	1,660,663	1,523,687
Interest rate:		
Fixed interest rate	149,078	53,653
Variable interest rate	1,511,585	1,470,034
Total	1,660,663	1,523,687

"Secured loans" include approximately €651,736 thousand in loans backed by mortgage guarantee at December 31, 2018 (€576,061 thousand at December 31, 2017).

The breakdown of these items by remaining term to maturity is provided in Note 7.3.

The average annual interest rate on the financial assets recognized under this heading in 2018 and 2017 was approximately 1.96% and 1.97%, respectively.

In 2018 and 2017, the Parent renegotiated the terms of certain transactions with debtors, modifying the original terms of those transactions, specifically obtaining additional guarantees with respect to those originally secured, generating higher certainty for the Entity as to their repayment. The breakdown of the transactions renegotiated by the Parent in recent years, up until December 31, 2017, transactions which it is believed, had they not been renegotiated might now be non-performing or classified as doubtful (impaired), is provided below:

	Thousands of euros	
	2018	2017
Loans and advances to other debtors		
Secured by mortgage guarantees	133,255	149,491
Secured by personal guarantees	2,038	2,304
Total	135,293	151,795

In 2004, the Entity securitized loans to customers with live balances of €6,532 and €8,165 thousand as of December 31, 2018 and 2017, respectively. In accordance with the criterion described in Note 3.9, these assets were not cancelled.

The breakdown of securitized assets that have not been derecognized, by type of asset, is the following:

	Thousands of euros	
	2018	2017
Mortgage loans	6,532	8,165
Total	6,532	8,165

Although the assets above were transferred to the TDA Mixto 20, F.T.A, securitization fund, the Group has not derecognized them given that it has substantially retained the risks (credit risks) associated with these assets.

At December 31, 2018, the Parent held bonds issued by the securitization fund to which these assets were transferred (which are secured by the assets securitized by the Bank) in an amount of €5,003 thousand (year-end 2017: €6,115 thousand). At the reporting date, the amount of the aforementioned bonds is presented by netting the account called “Financial liabilities issued” from “Deposits from other creditors” in the accompanying consolidated balance sheet (Note 18.3).

The breakdown of liabilities recognized as a result of the cancellation of the assets above is as follows:

	Thousands of euros	
	2018	2017
Financial liabilities at amortized cost (Note 18.3)	1,530	2,050
Total	1,530	2,050

The breakdown of the valuation adjustments made to transactions classified under "Loans and advances to other debtors" is the following:

	Thousands of euros	
	2018	2017
Valuation adjustments		
Impairment allowances	(72,665)	(85,442)
Accrued interest	3,478	2,869
Others	(5,144)	(4,031)
Total	(74,331)	(86,604)

The classification of impaired assets pending collection based on related ages is the following:

	Thousands of euros				
2018	Up to 6 Months	6 to 9 Months	9 to 12 Months	Over 12 Months	Total
Unsecured loans	8,789	739	139	5,681	15,348
Other loans with mortgage guarantees on finished dwellings	23,388	1,792	2,432	13,353	40,965
Other secured loans	27,850	2,481	1,266	11,976	43,573
Total	60,027	5,012	3,837	31,010	99,886

	Thousands of euros				
2017	Up to 6 Months	6 to 9 Months	9 to 12 Months	Over 12 Months	Total
Unsecured loans	13,325	645	69	7,878	21,917
Other loans with mortgage guarantees on finished dwellings	29,287	274	643	13,828	44,032
Other secured loans	34,315	3,202	1,171	17,038	55,726
Total	76,927	4,121	1,883	38,744	121,675

Accumulated accrued financial income not recognized in the 2018 and 2017 consolidated income statements from impaired loans to customers amounted to €4,511 thousand, and €5,728 thousand, respectively.

At December 31, 2018 and 2017, doubtful assets are secured by the following guarantees or credit improvements in addition to the guarantees provided by the respective borrowers (shown at fair value as of the date the loan was granted).

	Thousands of euros
2018	45,391
2017	44,308

The movement in impaired financial assets derecognized from assets given that the likelihood of their recovery is considered remote is the following:

	Thousands of euros	
	2018	2017
Opening balance	33,920	30,370
Additions	5,797	6,950
With a charge against asset impairment allowances	5,734	6,576
Charged directly against profit and loss	51	243
Products past due and not collected	12	131
Recoveries	(1,769)	(3,400)
Due to forgiveness	(1,505)	(2,899)
Collected in cash without additional financing	(259)	(364)
By others	(5)	(137)
Closing balance	37,948	33,920

12.4. Impairment losses

Impairment losses on assets included under "Financial assets at amortised cost" recognized at December 31, 2018 and 2017 are broken down as follows:

	Thousands of euros			
2018	Individually assessed	General	Country risk	Total
Balance at December 31, 2017	(68,255)	(17,156)	(31)	(85,442)
Allowances charged to profit and loss	(6,446)	(10,482)	(13)	(16,941)
Measured on an individual basis	(6,446)	-	-	(6,446)
Measured collectively		(10,482)	(13)	(10,495)
Allowances reversed through profit and loss	14,456	9,244	38	23,738
Net allowances	8,010	(1,238)	25	6,797
Amounts written off against allowances	5,648	-	-	5,648
Other movements	103	229	-	332
Balance at December 31, 2018	(54,494)	(18,165)	(6)	(72,665)

2017	Thousands of euros: Individually assessed	General	Country risk	Total
Balance at December 31, 2016	(75,307)	(17,154)	(48)	(92,509)
Allowances charged to profit and loss	(24,703)	(13,390)	(39)	(38,132)
Measured on an individual basis	(24,703)	-	-	(24,703)
Measured collectively	-	(13,390)	(39)	(13,429)
Allowances reversed through profit and loss	25,341	13,388	56	38,785
Net allowances	638	(2)	17	653
Amounts written off against allowances	6,483	-	-	6,483
Other movements	(69)	-	-	(69)
Balance at December 31, 2017	(68,255)	(17,156)	(31)	(85,442)

The breakdown of “Impairment losses – Financial assets at amortised cost” as per the income statement as of December 31, 2018 and 2017 is the following:

	Thousands of euros	
	2018	2017
Net allowances for the year	6,797	653
Defaulted loans collected	206	364
Others	(51)	(194)
Total	6,952	823

As of December 31, 2018 and 2017 impairment losses recognized cover the minimum provisions required by the Bank of Spain given the status and types of transactions and borrowers.

13. DERIVATIVES – HEDGE ACCOUNTING

The breakdown of this consolidated balance sheet heading is the following:

	Thousands of euros			
	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Bonds and debentures				
Spanish government debt securities	1,371	1,367	-	-
Other fixed income	236	274	-	-
Total	1,607	1,641	-	-

The hedging derivatives were arranged over the counter.

All of the hedging derivatives are interest rate swaps; they hedge the fair value of the interest rates received on certain debt securities and a portfolio of loans, all of which have been recognized by the Entity within financial assets at amortized cost.

The amount recognized within liabilities corresponds to the present value of the derivatives at December 31, 2018. The amount recognized within assets corresponds to the fair value of the hedged items at December 31, 2018.

The valuation methods used to determine the fair values of the derivatives are based on the present value of the estimated future cash flows, discounted using rates derived from observable interest rate curves.

The breakdown by currency and maturity of the asset and liability headings corresponding to hedging derivatives at December 31, 2018 is provided below:

	Thousands of euros	
	Assets	Liabilities
By currency:		
Euros	1,607	1,641
Dollar	-	-
	1,607	1,641
By maturity:		
Up to one years	-	-
One to five years	-	-
More than five years	1,607	1,641
	1,607	1,641

The breakdown of the asset and liability headings corresponding to hedging derivatives at December 31, 2018 and 2017 is provided below:

	2018		
	Notional amount	Fair value	
		Assets	Liabilities
Other operation above interest rate Swaps	92,601	1,607	1,641
	92,601	1,607	1,641

14. NON-CURRENT ASSETS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE

The breakdown of these balance sheet headings in 2018 and 2017 is the following:

	Thousands of euros			
	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Assets awarded in payment of debts	13,394	-	13,930	-
Impairment allowances	(3,610)	-	(3,446)	-
Total	9,784	-	10,484	-

The fair value of each of the assets awarded is higher than the corresponding carrying amount recognized.

The movement in these balance sheet headings in 2018 and 2017 is as follows:

	Thousands of euros	
	Asset	Liabilities
Balance at December 31, 2016	15,728	-
Increases	1,370	-
Retirements	(3,168)	-
Balance at December 31, 2017	13,930	-
Increases	718	-
Retirements	(1,254)	-
Balance at December 31, 2018	13,394	-

The breakdown of assets awarded in payment of debts is the following:

	Thousands of euros	
	2018	2017
Real estate	12,161	13,930
Land	1,233	-
Total	13,394	13,930

Law 8/2012 of October 30, on the write-down and sale of the financial sector's real estate assets, establishes that foreclosed assets or those received in payment of debts related to land for property development and construction or real estate promotions of credit entities, both those existing at December 31, 2012 and those from subsequent dates, must be delivered by the credit entities to a public limited company for their management. In addition, it establishes that this must occur before the deadline set for allocations of provisions as applicable to the entity in accordance with articles 1 and 2 of Royal Decree Law 2/2012.

At December 31, 2018 and 2017, the companies in which the Bank holds interests and that have non-current assets held for sale are the following:

	Ownership interest, %			
	2018		2017	
	Direct	Indirect	Direct	Indirect
Maxlan, S.A.U.	100.00	-	100.00	-
Bancofar, S.A.	81.38	-	81.29	-

The credit lines granted to asset management companies have the following characteristics:

Balance at December 31, 2018:	4,875 Thousands of euros
Interest rate:	Between 1.75% and 3.25%
Maturity:	Between 2018 and 2045
Purpose:	Financing acquisition of assets and credit insurance
Accounting classification:	Standard
Balance at December 31, 2017:	5,772 Thousands of euros
Interest rate:	Between 1.75% and 2.5%
Maturity:	Between 2018 and 2035
Purpose:	Financing acquisition of assets and credit insurance
Accounting classification:	Standard

The following table provides a breakdown of impairment losses for “Non-current assets held for sale” recognized by the Group as of December 31, 2018 and 2017:

	Thousands of euros	
	2018	2017
Opening Balance	(3,446)	(3,093)
Net allowances	318	576
Other movements	(482)	(929)
Closing Balance	(3,610)	(3,446)

15. INVESTMENTS

Below is a summary of the equity interests in subsidiaries, jointly controlled entities and associates of significance acquired and disposed of during 2018:

- In 2018, the Group increased its interest in Bancofar, S.A. by 0.09% at a cost of €68 thousand.

The main movements with respect to investees in 2017 were as follows:

- On March 17, 2017, the Bank sold its interest in Sync 2000 S.I.C.A.V.; that investment had been carried at €775 thousand at year-end 2016.

- At December 31, 2016, the Entity held investments in Eurocartera 600, S.I.C.A.V., S.A. and Cartera Dinámica, S.I.C.A.V., S.A. in the amounts of €4,228 thousand and €3,752 thousand, respectively. In 2017, those entities were merged into Gestifonsa Retorno Absoluto, F.I. and Gestifonsa Patrimonio, F.I., with the Bank receiving units in those investment funds in in exchange in an amount equivalent to the fair value of its interests in the merged entities at the time of the merger.

As outlined in note 1.2, at both year-ends all of the Group's subsidiaries were fully consolidated. The Group did not have any interests in jointly controlled entities or associates at either year-end.

16. TANGIBLE ASSETS

The breakdown of this consolidated balance sheet heading as of December 31, 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
For own use	43,619	43,821
Investment properties	5,513	7,967
Total	49,132	51,788

The movements in these consolidated balance sheet headings in 2018 and 2017 are detailed as follows:

	Thousands of euros					
For own use	Computer equipment	Furniture, fixtures and other	Buildings	Work in progress	Investment property	Total
Cost value						
Balance at 12.31.16	2,468	7,487	46,461	596	8,378	65,390
Additions	53	112	1,538	-	2,729	4,432
Retirements	(203)	(155)	(603)	(596)	(146)	(1,703)
Transfers	-	-	-	-	-	-
Balance at 12.31.17	2,318	7,444	47,396	-	10,961	68,119
Additions	21	853	336	-	252	1,462
Retirements	(11)	(2,023)	(381)	-	(2,614)	(5,029)
Transfers	-	-	-	-	-	-
Balance at 12.31.18	2,328	6,274	47,351	-	8,599	64,552
Accumulated depreciation						
Balance at 12.31.16	(1,996)	(3,965)	(3,598)	-	(1,440)	(10,999)
Additions	(240)	(523)	(506)	-	(122)	(1,391)
Retirements	235	192	45	-	-	472
Transfers	-	-	-	-	-	-
Balance at 12.31.17	(2,001)	(4,296)	(4,059)	-	(1,562)	(11,918)
Additions	(102)	(546)	(618)		(119)	(1,385)
Retirements	-	2,278	-	-	-	2,278
Transfers	-	-	-	-	-	-
Balance at 12.31.18	(2,103)	(2,564)	(4,677)	-	(1,681)	(11,025)
Impariment						
Balance at 12.31.16	-	-	(187)	(596)	(1,376)	(2,159)
Additions	-	-	(2,794)	-	(287)	(3,081)
Retirements	-	-	-	596	231	827
Transfers	-	-	-	-	-	-
Balance at 12,31,17	-	-	(2,981)	-	(1,432)	(4,413)
Additions	-	-	(90)	-	(220)	(310)
Retirements	-	-	81	-	247	328
Transfers	-	-	-	-	-	-
Balance at 12,31,18	-	-	(2,990)	-	(1,405)	(4,395)
Net value at 31,12,17	317	3,148	40,356	-	7,967	51,788
Net value at 31,12,18	225	3,710	39,684	-	5,513	49,132

As of December 31, 2018 and 2017 the Group had no commitments to purchase or sell property and equipment for significant amounts.

The Group has no property and equipment for significant amounts with restrictions regarding use or ownership, no longer used or pledged in guarantee of repayment of debts**.**

As of December 31, 2018 and 2017 the Group had no fully-depreciated property and equipment in use**.**

"Investment properties" relates primarily to real estate owned by the Group that has been rented to third parties under operating leases or is available for sale**.**

In 2018, the Group received income from investment properties and operating leases totalling €500 thousand (2017: €647 thousand), see Note 25.3.

17. INTANGIBLE ASSETS

The breakdown of this consolidated balance sheet heading is as follows:

	Thousands of euros	
	2018	2017
Goodwill		
- FAM Caminos, S.A.	4,337	4,337
- Gefonsa, S.V., S.A.U.	252	288
Other intangible assets		
- Customer portfolios	3,932	4,258
- Other intangible assets	1,289	1,333
Total	9,810	10,216

The goodwill associated with FAM Caminos, S.A. derives from the acquisition in 2011 of an 80% shareholding in this entity. As indicated in Note 3.11.1, this goodwill has been tested for impairment, specifically by valuing this investee using discounted cash flow methodology. The main assumptions underpinning the cash flow projections were as follows:

	2018	2017
Projection period	2019-2023	2018-2022
Growth in insurance premiums managed (annually)	1.5%-2%	2.05%
Growth in income from the provision of services to insurance providers	1.5%-2%	2.05%
Discount rate	9.59%	9.40%

The goodwill associated with Arcogest, S.G.C., S.A. (an entity which merged into Gefonsa, S.V., S.A. in 2015) derives from the investment acquired in 2014.

The intangible assets related to customer portfolios correspond to the acquisition in 2012 by Group company Gespensión Caminos, E.G.F.P., S.A.U. from Mutualidad FAM of a customer portfolio comprising the account, unitholder and beneficiary units of the latter's three pension funds. This transaction entailed the substitution of Gespensión Caminos, E.G.F.P., S.A.U. as pension fund manager, for which the latter delivered consideration of €6,100 thousand.

Based on the estimates and projections used by the Bank's directors, the forecast attributable income supports the recognized carrying amounts of goodwill and customer portfolios.

The rest of the balance included under "Other intangible assets" in the accompanying consolidated balance sheet essentially corresponds to investments in software and other intangible assets.

The movements in this consolidated balance sheet heading in 2018 and 2017 are detailed as follows:

	Thousands of euros		
		Other intangible assets	
	Goodwill	Customer portfolio	Other intangible assets
Cost Value			
Balance at 12.31.16	4,661	6,124	4,209
Additions	-	-	43
Retirements	(36)	-	-
Transfers	-	-	-
Balance at 12.31.17	4,625	6,124	4,252
Additions	-	-	308
Retirements	-	-	-
Transfers	-	-	-
Balance at 12.31.18	4,625	6,124	4,560
Accumulated amortization			
Balance at 12.31.16	-	(1,541)	(2,557)
Additions	-	(325)	(362)
Retirements	-	-	-
Transfers	-	-	-
Balance at 12.31.17	-	(1,866)	(2,919)
Additions	(36)	(326)	(352)
Retirements	-	-	-
Transfers	-	-	-
Balance at 12.31.18	(36)	(2,192)	(3,271)
Net value at 31.12.17	4,625	4,258	1,333
Net value at 31.12.18	4,589	3,932	1,289

The Group has no intangible assets with restrictions regarding use or ownership or with indefinite useful lives. No impairment losses were recognized for these assets in 2018 and 2017.

18. FINANCIAL LIABILITIES AT AMORTIZED COST

The breakdown of this heading under "liabilities" on the consolidated balance sheet is the following:

	Thousands of euros	
	2018	2017
Deposits from central banks	318,966	320,295
Deposits from credit institutions	55,142	42,705
Deposits from other creditors	2,721,452	2,536,496
Other financial liabilities	32,786	39,792
Total	3,128,346	2,939,288

18.1 Deposits at central banks

The breakdown of this heading under "liabilities" on the consolidated balance sheet, by type of instrument, is as follows:

	Thousands of euros	
	2018	2017
Bank of Spain	322,000	322,000
Valuation adjustments		
Accrued interest	(3,034)	(1,705)
Total	318,966	320,295

The Group's "Deposits at central banks" accrued an average annual rate of 0.41% in 2018 (in 2017: 0.53%).

During 2018 interests for deposits held in the Bank of Spain were accrued for €1,330 (2017: €1,705) (Note 25.1).

The breakdown of this heading by residual maturity is provided in Note 7.3 on liquidity risk.

18.2 Deposits at credit institutions

The breakdown of this heading under "liabilities" on the consolidated balance sheet, by type of instrument, is as follows:

	Thousands of euros	
	2018	2017
Time deposits	32,055	33,946
Other accounts	23,087	8,758
Valuation adjustments		
Accrued interest	-	1
Total	55,142	42,705

In 2018, the average annual interest rate on "Deposits at credit institutions" was 0.04% (2017: 0.12%).

The breakdown of this heading by residual maturity is provided in Note 7.3 on liquidity risk.

18.3 Deposits from other creditors

At December 31, 2018 and 2017, the breakdown of this consolidated balance sheet heading by counterparty and type of financial liability, is as follows:

	Thousands of euros	
	2018	2017
Spanish general government	5,534	20,359
Other resident sector		
Demand deposits	1,184,100	1,007,433
Current accounts	62,924	53,926
Saving accounts	4,413	5,000
Time deposits		
Fixed-term deposits	1,093,109	1,117,585
Home purchase savings accounts	-	792
Financial liabilities issued	1,530	2,050
Repurchase agreements	368,390	326,942
Valuation adjustments	1,452	2,409
Total	2,721,452	2,536,496
Currency		
Euros	2,705,989	2,525,798
Other currencies	15,463	10,698
Total	2,721,452	2,536,496
Interest rate		
Fixed interest rate	2,122,516	1,959,588
Variable interest rate	598,936	576,908
Total	2,721,452	2,536,496

In 2018 and 2017 "Fixed-term deposits" includes mortgage bonds for a nominal amount of €50,000 thousand in both years, as per the following table:

			Thousands of euros	
			Carrying amount	
Issue date	Maturity date	Interest rate	2018	2017
20/07/2007	20/07/2022	5.1353%	51,682	52,165

The breakdown of the valuation adjustments made to transactions classified under "Deposits from other creditors" from other resident sectors is the following:

	Thousands of euros	
	2018	2017
Valuation adjustments		
Accrued interest	1,452	2,409
Fair value liabilities	-	-
Total	1,452	2,409

In 2018, the average annual interest rate on "Deposits from other creditors" was 0.22% (2017: 0.29%).
The breakdown of this heading by residual maturity is set forth in Note 7.3.

18.4 Other financial liabilities

All the financial liabilities recognized under the accompanying consolidated balance sheet heading are classified as "Financial liabilities at amortized cost" and therefore, are measured at amortized cost. This heading also includes the amount corresponding to accounts payable classified as financial liabilities not included under other headings.

The breakdown of "Other financial liabilities," by type of financial instrument, is the following:

	Thousands of euros	
	2018	2017
Obligations payable	1,974	3,711
Tax collection accounts	5,177	7,316
Special accounts	4,062	24,423
Other items	21,573	4,342
Total	32,786	39,792

"Other items" includes items such as €128 and €156 thousand in balances pending repayment to Fondo TDA Mixto 20, F.T.A., as of December 31, 2018 and 2017, respectively, for the amortization of loans ceded to the fund.

18.5 Information required by Law 2/1981 of March 25, which regulates the mortgage market, and Royal Decree 716/2009 of April 24 which enacts said law.

Banco Caminos, S.A. is the only Group company that issues mortgage-backed covered bonds.

As the Parent Entity directly issues mortgage-backed securities, it must disclose in its financial statements the information on the Special Accounting Register established in Royal Decree 716/2009, of April 24; which enacts certain aspects of Law 2/1981 of March 25, related to regulation of the mortgage market and other rules in the mortgage and financial system, as well as those included in Bank of Spain Circular 7/2010 which modifies, inter alia, the information entities must include in financial statements relating to the Special Accounting Register referred to in Article 21 of the abovementioned Royal Decree 716/2009, as well as the specific information provided by the Board of Directors to be included in the Notes to the financial statements in this regard.

The Board of Directors expressed that the Parent Entity has specific policies and procedures which encompass all of its activities relating to mortgage market bond issues, guaranteeing strict compliance with applicable mortgage market regulations. The risk policies applicable to real estate market transactions establish maximum financing limits on the loan to value (LTV) appraisal; there are also additional specific policies adapted to each mortgage product, which occasionally apply more stringent limits. The general policies establish the amount of the loan and the income or repayment capacity of the borrower with which all transactions must comply. As far as verifying the client's data and solvency, the Parent Entity has the wherewithal to contrast documentation and carry out internal audits using procedures and tools which ensure the reliability of its corroborations. The Entity's procedures assume that each mortgage in the real estate market must include an individual appraisal carried out by an independent firm.

The following individual information for 2018 and 2017 is relative to and included in the Special Accounting Register referred to in Article 21 of Royal Decree 716/2009, dated April 24.

18.5.1 Asset transactions

At December 31, 2018 and 2017, the nominal amounts of total mortgage loans and secured credit lines, as well as information pertaining to their eligibility and computability with respect to the mortgage market, are as follows:

	Thousands of euros Face Value	
	2018	2017
Total loans (a) (b)	441,631	427,729
Collateralized mortgage bonds issued (c)	3,713	4,697
*Of which: Loans maintained on the assets of the balance sheet **(d)***	*3,713*	*4,697*
Mortgage transfer certificates issued (c)	2,819	3,468
*Of which: Loans maintained on the assets of the balance sheet **(d)***	*2,819*	*3,468*
Mortgage loans serving as collateral for received financing	-	-
Loans backing mortgage bonds and covered mortgage bonds (e)	435,099	419,564
Ineligible loans (f)	125,208	123,044
Loans meeting eligibility requirements except for the limits described in article 5,1 Royal Decree 716/2009	30,696	57,204
Other	94,512	65,840
Eligible loans (g)	309,891	296,520
Loans covering mortgage bond issues	-	-
Loans eligible for covering mortgage bond issues	309,891	296,520
Ineligible amounts (H)	-	-
Eligible amounts	309,891	296,520

	Present value	
Memorandum item:	2018	2017
Loans securing mortgage-backed bond issues (i)	-	-

(a) Includes all transactions of this nature, regardless of the heading under which they are presented for balance sheet purposes.

(b) Drawn balance pending collection of loans and credit facilities guaranteed by mortgages registered in the Bank's favor (including those acquired through collateralized mortgage bonds and mortgage transfer certificates), even if they have been derecognized, irrespective of the percentage the loans represent with respect to the latest appraised value *(loan to value*).

(c) Amount of principal drawn under loans transferred in the form of mortgage participations (*participaciones hipotecarias*) or mortgage transfer certificates (*certificados de transmisión de hipoteca*), even if such loans have been derecognized.

(d) Amount of principal drawn under loans that have been transferred but not derecognized.

(e) All loans less the sum of mortgage participations, mortgage transfer certificates and mortgage loans pledged to secure financing received.

(f) Loans secured by mortgage guarantee which have not been transferred to third parties and do not secure received financing that does not meet the requirements established by article 3 of Royal Decree 716/2009 to be eligible for collateralized mortgage bonds and covered bond issues.

(g) Loans eligible for mortgage bond and covered bond issues as per article 3 of Royal Decree 716/2009, without applying the computation limits established by article 12 of Royal Decree 716/2009.

(h) Amount of eligible loans which, based on the criteria established by article 12 of Royal Decree 716/2009, are not computable for covering mortgage bonds or covered bond issues.

(i) Present value calculated in keeping with the provisions of article 23 of Spanish Royal Decree 716/2009.

The following table reflects the nominal value of mortgage loans and secured credit lines at December 31, 2018 and 2017:

	Thousands of euros			
	2018		2017	
	Loans backing mortgage bonds and covered bonds (b)	*Of which: Eligible loans (c)*	Loans backing mortgage bonds and covered bonds (b)	*Of which: Eligible loans (c)*
TOTAL (a)	435,099	*309,891*	419,564	*296,519*
SOURCE OF TRANSACTIONS	435,099	*309,891*	419,564	*296,519*
Transacted by the Bank	430,569	*308,643*	415,034	*293,652*
Assumed from other entities	4,530	*1,248*	4,530	*2,867*
(Remaining balance)	-	-	-	-
CURRENCY	435,099	*309,891*	419,564	*296,519*
Euro	435,099	*309,891*	419,564	*296,519*
Other currencies	-	-	-	-
PAYMENT STATUS	435,099	*309,891*	419,564	*296,519*
Normal payment record	411,643	*309,891*	399,228	*296,519*
Other circumstances	23,456	-	20,336	-
AVERAGE RESIDUAL MATURITY	435,099	*309,891*	419,564	*296,519*
Up to ten years	59,461	*43,407*	53,864	*31,987*
Ten to twenty years	180,733	*134,934*	173,532	*127,362*
Ten to thirty years	182,441	*122,656*	180,074	*129,936*
More than thirty years	12,464	*8,894*	12,094	*7,234*
INTEREST RATES	435,099	*309,891*	419,564	*296,519*
Fixed rates	10,734	*9,959*	11,324	*9,005*
Variable rates	424,365	*299,932*	408,240	*287,514*
Mixed interest rate				
OWNERS	435,099	*309,891*	419,564	*296,519*
Legal entities and individual entrepreneurs	69,563	*37,107*	74,664	*29,203*
Of which: construction and property developments (land included)	*3,976*	*1,271*	*4,804*	*1,336*
Other	365,536	*272,784*	344,900	*267,316*
TYPE OF GUARANTEE	435,099	*309,891*	419,564	*296,519*
Assets/completed buildings	431,394	*309,400*	416,515	*296,013*
Residential	381,485	*278,478*	370,417	*276,643*
Of which: government-subsidised housing	4,983	*4,204*	*4,694*	*3,813*
Commercial	*33,806*	*22,386*	29,898	*11,539*
Other buildings and constructions	16,103	*8,536*	16,200	*7,831*
Assets/buildings under construction	-	-	-	-
Residential	-	-	-	-
Of which: government-subsidised housing	-	-	-	-
Commercial	-	-	-	-
Other buildings and constructions	-	-	-	-
Land	3,705	*491*	3,049	*506*
Developed	3,214	-	1,872	-
Other	491	*491*	1,177	*506*

(a) Includes all transactions of this nature, regardless of the heading under which they are presented for balance sheet purposes.

(b) Principal drawn and outstanding secured by a mortgage, regardless of the corresponding loan-to-value reading, that have not been transferred to third parties or pledged to secure financing received.

(c) Loans eligible for mortgage bond and covered bond issues as per article 3 of Royal Decree 716/2009, without applying the computation limits established by article 12 of Royal Decree 716/2009.

The following table provides a breakdown of the nominal values of mortgage loans and secured credit lines for bond and covered bond issues at December 31, 2018 and 2017 based on the percentage of risk in terms of the latest available appraised value for mortgage market purposes:

	2018 - Loan to value (b) - Thousands of euros					
Type of guarantee	LTV ≤ 40%	40% < LTV ≤ 60%	LTV > 60%	60% < LTV ≤ 80%	LTV > 80%	Total
Eligible loans (b) (c)	95,951	126,855	497	86,588	-	309,891
- Relating to residences	85,468	106,422		86,588	-	278,478
- Relating to other properties	10,483	20,433	497			31,413

	2017 - Loan to value (b) - Thousands of euros					
Type of guarantee	LTV ≤ 40%	40% < LTV ≤ 60%	LTV > 60%	60% < LTV ≤ 80%	LTV > 80%	Total
Eligible loans (b) (c)	93,821	104,675	506	97,517	-	296,519
- Relating to residences	83,320	95,806	-	97,517	-	276,643
- Relating to other properties	10,501	8,869	506	-	-	19,876

(a) Includes all transactions of this nature, regardless of the heading under which they are presented for balance sheet purposes.

(b) The loan-to-value is obtained by dividing the carrying amount of the principal drawn under each transaction by the latest appraisal value of the underlying collateral.

(c) Loans eligible for mortgage bond and covered bond issues under article 3 of Royal Decree 716/2009, without applying the computation limits established by article 12 of Royal Decree 716/2009.

Loans eligible for mortgage bond and covered bond issues at December 31, 2018 and 2017, the breakdown of the nominal amounts of undrawn balances of mortgage loans and secured credit lines backing mortgage bond and covered bond issues is as follows:

	Thousands of euros principal drawn (b)	
	2018	2017
Mortgage loans securing mortgage and covered bond issues (a):	4,610	4,264
Potentially eligible loans (c)	98	98
Ineligible loans	4,512	4,166

(a) Includes all transactions of this nature, regardless of the heading under which they are presented for balance sheet purposes.

(b) Committed amounts (limit) less the drawn amounts of all loans secured by mortgages, irrespective of the percentage of total risk to loan to value not transferred to third parties or securing received financing. The available balance includes amounts paid only to the real estate promoter when the residences are delivered.

(c) Potentially eligible loans for mortgage bond and covered bond issues under article 3 of Royal Decree 716/2009

The movement in the nominal value of credit lines and mortgage loans securing mortgage and covered bond issues in 2018 and 2017 was as follows:

	Thousands of euros			
	2018		2017	
	Eligible loans (b)	Ineligible loans (c)	Eligible loans (b)	Ineligible loans (c)
Balance at January 1	296,519	123,044	282,134	128,280
Derecognized during the period	(28,104)	(15,505)	(39,940)	(31,005)
Principal past due collected in cash	(69)	(433)	(184)	(635)
Cancelled before maturity	(5,847)	(9,432)	(12,840)	(16,545)
Assumed by other entities	-	-	-	-
Other	(22,188)	(5,640)	(26,916)	(13,825)
Recognized during the period	41,476	17,669	54,325	25,769
Transacted by the Bank	25,151	5,365	46,755	18,893
Assumed from other entities	-	74	459	478
Other	16,325	12,230	7,111	6,398
Balance at December 31 (a)	309,891	125,208	296,519	123,044

(a) Includes all transactions of this nature, regardless of the heading under which they are presented for balance sheet purposes.

(b) Loans eligible for mortgage bond and covered bond issues as per article 3 of Royal Decree 716/2009, without applying the computation limits established by article 12 of Royal Decree.

(c) Loans secured by mortgage guarantee that have not been transferred to third parties and do not secure received financing which does not meet the requirements established by article 3 of Royal Decree 716/2009 to be eligible for mortgage bonds and covered bond issues

In 2018 and 2017, the Entity had substitute assets linked to mortgage-backed covered bonds, mortgage bonds, or mortgage shares, for the following amounts:

	Thousands of euros			
	2018		2017	
REPLACEMENT ASSETS (Breakdown by nature)	Covered Mortgage Bonds Issued	Mortgage Bonds Isued	Covered Mortgag e Bonds Issued	Mortgag e Bonds Isued
Aquired covered mortgage bonds	-	-	-	-
Aquired mortgage bonds	-	-	-	-
Securities issued by mortgage securitization funds	-	-	-	-
Securities issued by asset securitization funds	-	-	-	-
Other debt securities	-	-	-	-
Other finantial assets	51,682	-	52,165	-
Total	51,682	-	52,165	-

18.5.2 Liability transactions

The following is a breakdown of the aggregate nominal value of the outstanding mortgage-backed securities at December 31, 2018 and 2017 by residual maturities:

	2018			2017		
	Thousands of euros			Thousands of euros		
	Nominal value	Updated value (a)	Average residual maturity (b)	Nominal value	Updated value (a)	Average residual maturity (b)
Mortgage bonds issued (c)	-			-	-	
Of which: recognized in liabilities	-			-		
Covered bonds issued (c)	51,682			52,165		
Of which: Not recognized in liabilities	-			-		
Debt securities Issued by public offering	-			-		
Residual maturity of less than one year	-			-		
Residual maturity of more than one year and less than two	-			-		
Residual maturity of more than two years and less than three	-			-		
Residual maturity of more than three years and less than five	-			-		
Residual maturity of more than five years and less than ten	-			-		
Residual maturity of more than ten years	-			-		
Debt securities Other issues	-			-		
Residual maturity of less than one year	-			-		
Residual maturity of more than one year and less than two	-			-		
Residual maturity of more than two years and less than three	-			-		
Residual maturity of more than three years and less than five	-			-		
Residual maturity of more than five years and less than ten	-			-		
Residual maturity of more than ten years	-			-		
Deposits	51,682			52,165		
Residual maturity of less than one year	-			-		
Residual maturity of more than one year and less than two	-			-		
Residual maturity of more than two years and less than three	-			-		
Residual maturity of more than three years and less than five	51,682			52,165		
Residual maturity of more than five years and less than ten	-			-		
Residual maturity of more than ten years	-			-		
Collateralized mortgage-bonds issued (b)	3,713		109	4,697		109
Issued by public offering	-		-	-		-
Other issues	3,713		109	4,697		109
Mortgage transfer certificates issued (b)	2,819		129	3,468		132
Issued by public offering	-		-	-		-
Other issues	2,819		129	3,468		132

(a) Updated value calculated as required by article 23 of Royal Decree 716/2009.

(b) Weighted average residual maturity by amounts, expressed in months rounded up.

(c) The mortgage bonds and covered bonds include all those issued by the Bank and pending maturity, irrespective of whether they are recognized in liabilities (since they have not been placed with third parties or repurchased).

Amount of mortgage participations and mortgage transfer certificates issued corresponding exclusively to mortgage loans that continue to be recognized on the face of the balance sheet.

19. PROVISIONS

The breakdown of this consolidated balance sheet heading as of December 31, 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Provision for pensions and similar obligations (Note 3.14.2)	202	193
Provision for taxes and legal contingencies	2,300	2,936
Provisions for contingent exposures and commitments	5,289	5,716
Other provisions	3,293	2,474
Total	11,084	11,319

The movement in these headings in 2018 and 2017 was the following:

	Thousands of euros				
	Provision for pensions and similar obligations	Provision for taxes and legal contingencies	Provision for contingent risks	Other provisions	Total
Balance at December 31, 2016	179	-	3,162	16,545	19,886
Recognized during the year	35	176	4,141	2,474	6,826
Unused amounts reversed	-	(109)	(1,604)	-	(1,713)
Transfers	-	16,545	-	(16,545)	-
Other movements	(21)	(13,676)	17	-	(13,680)
Balance at December 31, 2017	193	2,936	5,716	2,474	11,319
Recognized during the year	46	268	98	2,350	2,762
Unused amounts reversed	-	-	(525)	-	(525)
Transfers	-	-	-	-	-
Other movements	(37)	(904)	-	(1,531)	(2,472)
Balance at December 31, 2018	202	2,300	5,289	3,293	11,084

“Other provisions” in the table above includes provisions recognized to cover probable or certain expenses, losses or liabilities as a result of ongoing lawsuits arising in the ordinary course of the Group's business activities; they are recognized at the estimated amounts that will be have to be discharged to cancel such liabilities.

20. OTHER ASSETS AND OTHER LIABILITIES

The breakdown of "Other assets" and "Other liabilities" as per the accompanying consolidated balance sheet as of December 31, 2018 and 2017 is the following:

	Thousands of euros	
	2018	2017
Assets:		
Accruals of unmatured loans	1,340	637
Unaccrued finance costs	236	573
Other items	358	8,104
Total	1,934	9,314
Liabilities:		
Accrued expenses	92	40
Other accruals	5,892	5,920
Other Liabilities	17	81
Total	6,001	6,041

21. EQUITY

21.1 Capital

This heading mainly shows the shares in which the Parent's equity is divided amongst its shareholders.

At December 31, 2018 the Group had treasury shares totalling €604 thousand (2017: €368 thousand).

On June 26, 2009, the Parent Entity's Board of Directors agreed to freely distribute the Parent Entity's available reserves amounting to €32 thousand, with a 9 cent cost value increase per share, to be settled in the corresponding currency, and therefore, the Parent Entity's share capital is established at €21,163,490.06.

Additionally, on February 12, 2010, the decision was ratified by public deed to split capital in the proportion of 10 new shares for each old one, through the decrease of the nominal amount of all the shares from €60.20 to €6.02, raising the total number of shares comprising the Parent Entity's share capital from 351,553 to 3,515,530; all are fully subscribed and paid in.

In their meeting held on June 22, 2011, the Parent Entity's shareholders resolved to request €7,241 thousand of the obligatory reserve fund from “Almagro, Sociedad Cooperativa de Consumidores y Usuarios”. This amount had been transferred to the cooperative as a legal requirement when Caja Camino was transformed into a bank. A balance of €9 thousand was left on deposit in said entity (Notes 1 and 21.2). In addition, the shareholders agreed that once the aforementioned amount had been returned, the Bank would pay Corporation Tax (€913 thousand) and would use the remaining €6,328 thousand to increase share capital, raising the nominal value of existing shares by €1.80 per share.

In their meeting held on November 29, 2011, the Entity's Board of Directors resolved to establish December 14, 2011 as the date on which the amount referred to above would be transferred back to it. The capital increase would be ratified by public deed on December 14, 2011.

At December 31, 2018 and 2017, following the capital increase referred to above, the Bank's share capital stood at €27,491 thousand, consisting of 3,515,530 registered shares with a nominal value of €7.82 per share, all of which are of the same type and series, fully subscribed and paid in.

21.2 Reserves and share premium

The movements in “Own funds – Share premium” and “Own funds – Reserves” in 2018 and 2017 are shown in the consolidated statement of all changes in equity for 2018 and 2017, which is an integral part of the consolidated statement of changes in equity.

The breakdown of “Reserves” as of December 31, 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Legal reserves (mandatory reserve)		
Voluntary reserves of the Parent	5,518	5,518
Reserves at associates	72,791	64,208
Reserves of entities accounted for using the equity method	60,049	55,229
Share Premium	29,033	29,033
Total	167,391	153,988

The balance of the share premium account originated from the voluntary contributions approved by the General Assembly of Caja Caminos on June 28, 2002 and the capital increase approved by the General Assembly on June 29, 2007 (Note 1). The balance of the share premium account can be freely distributed. At year end, the share premium is called and thus recognized.

In addition, in 2008 the obligatory reserve fund of €7,250 thousand was transferred to "Almagro Sociedad Cooperativa de Consumidores y Usuarios" as approved by the Extraordinary Assembly held on June 29, 2007 (Note 1). Of this amount, €6,328 thousand was returned in 2011 to increase capital as described in Note 21.1, and €913 thousand will be returned in 2012 to pay Corporation tax.

Voluntary reserves and reserves (losses) in consolidated entities

The breakdown of this balance sheet heading by entity, after considering consolidation adjustments, is the following:

	Thousands of euros	
Entity	2018	2017
Banco Caminos, S.A.	107,337	98,754
Bancofar, S.A.	35,886	34,204
Corporación Banco Caminos, S.L.U.	4,018	3,479
FAM Caminos, S.A.	3,030	2,389
Gabinete de Estudios y Gestión Jurídica, S.A.	5,015	5,026
Gefonsa, S.V., S.A.Uñ.	5,156	4,973
Gespensión Caminos, E.G.F.P., S.A.U,	2,451	1,898
Gestifonsa, S.G.I.I.C, S.A.U.	3,317	2,556
Maxlan, S.A.	185	123
Servifonsa, A.I.E.	3	3
Sistemcam, S.A.U.	993	583
Total	167,391	153,988

21.3 Consolidated profit (loss) for the year

The contribution to consolidated profit (loss) as of December 31, 2018 and 2017, by entity, taking into account the effect of consolidation adjustments, is as follows:

	Thousands of euros	
Entity	2018	2017
Banco Caminos, S.A.	7,974	10,679
Bancofar, S.A.	7,360	4,898
Corporación Banco Caminos, S.L.U.	(588)	(835)
FAM Caminos, S.A.	1,006	891
Gabinete de Estudios y Gestión Jurídica, S.A.	(958)	(3,706)
Gefonsa, S.V., S.A.U.	33	329
Gespensión Caminos, E.G.F.P., S.A.U.	1,626	1,596
Gestifonsa, S.G.I.I.C., S.A.U.	2,573	2,541
Maxlan, S.A.U.	38	124
Servifonsa, A.I.E.	(1,367)	(2,134)
Sistemcam, S.A.U.	(6,356)	(2,904)
Other	-	833
Total	11,341	12,312

21.4 Accumulated other comprehensive income

This consolidated balance sheet heading includes the net amount arising from changes in the fair value of assets classified as available for sale, which as explained in Note 3.5, should be classified as part of the Group’s equity. The related gains or losses are taken to the income statement when the associated assets are sold.

The consolidated statement of recognized income and expense for 2018 and 2017, which is an integral part of the Consolidated Statement of Changes in Equity, presents the variations in this heading during those years.

21.5 Non-controlling interests

The breakdown of this heading at December 31, 2018 and 2017 is as follows:

	Thousands of euros	
Company	2018	2017
Bancofar, S.A.	18,466	18,174
FAM Caminos, S.A.	1,144	1,019
Total	19,610	19,193

22. EDUCATION AND PROMOTION FUND

Due to the transformation from the cooperative, Caja Caminos, into a bank, Law 13/1989, of May 26, on Credit Cooperatives, which regulates the Education and Promotion Fund, no longer applies to the Entity.

While the Education and Promotion Fund has disappeared due to the Entity’s new legal status, an expense of €20 thousand (2017: €330 thousand) (Note 25.5) was recognized under “Other administrative expenses” which relates to the financial support the Entity continues to offer the Caja Caminos Foundation.

23. RISK AND CONTINGENT EXPOSURES AND OTHERS COMMITMENTS

23.1 Loan commitments given

Loan commitments granted are irrevocable or revocable commitments only in the event of a material adverse change to provide financing under specified terms and conditions, such as balances available from third parties within the entity's pre-established limits.

The detail of the loan commitments granted, grouped by counterparty, at year-end 2018 and 2017 is shown in the following table:

	Thousand euros	
	2018	2017
Available to third parties		
Public Administrations Sector	-	-
Other resident sectors		
Credit Cards	26,208	37,599
Accounts with immediate availability	196,457	120,152
Conditional	1,630	84,767
Non-residents	1,350	948
Total	225,645	243,466

23.2 Financial guarantees given

The detail of the financial guarantees given, at year-end 2018 and 2017 is shown in the following table:

	Thousands of euros	
	2018	2017
Guarantees given	17,267	21,772
Other guarantees and indemnities	2,484	-
Total	19,751	21,772

A significant portion of these guarantees will expire without any payment obligation materialising for the consolidated entities. Therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Group to third parties.

The income generated on guarantee instruments is recognised in the consolidated income statement under “Fee and commission income” and "Interest income" (in amounts corresponding to the present value of the fees), calculated by applying the interest rate on the underlying contract to the face value of the guarantee.

The Parent did not hold any assets securing transactions performed by it or by third parties at either year-end.

23.3 Contingent commitments

The breakdown of contingent commitments at 31 December 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Other guarantees and sureties	18,364	18,141
Guarantees and portfolio lines available	24,954	25,687
Others	-	119
Total	43,318	43,947

23.4 Fiduciary activities and investment services

The Group's off-balance sheet customer funds as of December 31, 2018 and 2017 are set out in the following table, specifying those which are managed by the Group.

	Thousands of euros	
	2018	2017
Investment companies and mutual funds	368,294	359,526
Pension funds	267,372	291,774
Discretional portfolio management	319,842	334,717
Funds sold and managed by Banco Caminos Group	955,508	986,017
Funds sold by Banco Caminos Group but managed by third parties outside group	172,175	175,351
Total	1,127,683	1,161,368

At December 31, 2018 the Group had 504 portfolio management contracts (2017: 509), with a total value of €308,469 and €334,717 thousand, respectively. The investments were made as follows:

	Thousands of euros	
	2018	2017
Invested in shares and domestic listed securities	67,148	82,708
Invested in shares and domestic non-listed securities	2,063	1,970
Invested in listed equity securities	75,513	82,604
Invested in foreign listed securities	154,166	161,440
Deposits at financial intermediaries	9,579	5,995
Total	308,469	334,717

In 2018 and 2017 commission income from the above activities was as follows:

	Thousands of euros	
	2018	2017
Management fees		
Investment companies and mutual funds	3,996	4,783
Pension funds	2,801	2,903
Total (Note 25.2)	6,797	7,686

In addition, the Group also renders securities custody and management services to customers. Related commitments assumed by the Parent as of December 31, 2018 and 2017 are as follows:

	Thousands of euros	
	2018	2017
Third-party securities	1,310,548	1,552,122

24. TAX MATTERS

According to current legislation, tax returns may not be considered final until either they have been inspected by tax authorities, or until the corresponding legal inspection period has expired. The Parent is open to inspection of applicable taxes and years as per prevailing tax legislation. All its group entities are open to inspection of all taxes levied during the past four years. The Group's Directors consider that no significant contingencies would arise from a review of the years and taxes open to inspection.

Due to the varying interpretations of the tax regulations applicable to the operations of Banco Caminos**,** certain contingent tax liabilities may exist for the years open to inspection that cannot be objectively quantified. However, the Entity's directors and its tax advisors consider that the possibility that these contingencies will materialize in future reviews by the tax authorities is remote and that, in any event, the related tax liability which could arise would not materially affect the accompanying consolidated financial statements.

During 2010, the Parent Entity agreed to file its corporate income tax under the consolidated tax regime. This tax group comprises the Parent and the subsidiaries which in keeping with applicable legislation are eligible for inclusion within this regime, in keeping with the established procedure, Group subsidiary Bancofar, S.A. joined the tax group on January 1, 2015. At December 31, 2018 the tax group was made up of 10 companies (2017: 12). The balances receivable from and payable to the companies within the tax group are recognized within tax assets and tax liabilities, as warranted. Also, the amounts related to unused deductions are calculated based on those made of the consolidated tax group.

The reconciliation of profit before tax to taxable income for 2018 and 2017, without considering income tax expense on transactions recognized directly through equity, is the following:

	Thousands of euros	
	2018	2017
Profit (loss) before tax	17,602	17,624
Increase (decrease) due to permanent differences	288	409
Adjusted book results	17,890	18,033
Increase (decrease) due to temporary differences	(5,123)	(9,310)
Taxable income	12,767	8,723

	Thousands of euros			
	2018		2017	
	Tax accrued	Tax payable	Tax accrued	Tax payable
Tax payable / (receivable) before adjustments				
In respect of adjusted accounting profit	5,367		5,410	
In respect of taxable income (tax loss)		3,830		2,617
Tax credits applied	(358)	(358)	(322)	(322)
Tax payable / (receivable) after deductions	5,009	3,472	5,088	2,295
Withholdings and payments on account	-	(4,664)	-	(4,770)
Other items	104	-	(522)	-
Tax payable / (receivable)	5,113	(1,192)	4,566	(2,475)

Other than the tax losses generated by Bancofar, S.A. before being added to the tax group (€20,640 thousand), at December 31, 2018, the tax group did not have any unused tax losses or unused tax credits.

The Entity has availed itself of tax benefits relating to deductions and tax rebates on taxable income in accordance with prevailing tax legislation.

“Tax assets” includes the amounts recoverable for taxes over the next twelve months (“Tax assets – Current”), as well as those considered recoverable in future years, including loss carryforwards or tax credits for deductions and tax rebates pending application ("Tax assets – Deferred”). “Tax liabilities” includes current and deferred tax liabilities. Related tax provisions are recognized under “Provisions” on the accompanying consolidated balance sheet.

The breakdown of "Tax assets" and "Tax liabilities" as of December 31, 2018 and 2017 is the following:

	Thousands of euros			
	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Current	6,615	4,949	5,002	2,284
Deferred	27,704	7,086	28,002	10,931
Total	34,319	12,035	33,004	13,215

Deferred tax assets correspond primarily to provisions recognized and impairment losses on financial assets that the Entity considered non-deductible, and deferred tax assets from losses on financial assets designated at fair value through profit or loss. This heading also includes tax assets in respect of the unused tax losses of Bancofar, S.A. (which was not part of the tax group at year-end 2014) in the amount of €6,192 thousand (2017: 6,684 thousand euros).

The amount pending inclusion in taxable income in future tax periods for deferred tax assets convertible into claims enforceable vis-a-vis the Spanish tax authorities under article 130 of Spain's Corporate Income Tax Act stood at €16,745 thousand at year-end 2018 (year-end 2017: €17,689 thousand).

Underpinned by a report compiled by an independent expert, the Group has estimated the taxable profit Bancofar, S.A. is expected to generate during the next 10 years (the period for which the estimates are deemed sufficiently reliable) on the basis of projections. It has also analyzed the periods in which the Group's taxable temporary differences are expected to revert, identifying those expected to revert in years in which Bancofar, S.A.'s unused tax losses can be utilized. Based on this analysis, the Group has recognized deferred tax assets for the unused tax losses of Bancofar, S.A. and the deductible temporary differences of the Group in respect of which it considers it probable that it will generate sufficient taxable profit.

Deferred tax liabilities correspond primarily to the deferred tax associated with the revaluation of financial assets at fair value through other comprehensive income.

Royal Decree Law14/2013 of 29 December.

On November 30, 2013, Royal Decree-Law 14/2013, of December 29, on urgent measures to adapt Spanish law to European legislation on the supervision and solvency of financial institutions was published in the Official State Gazette (Boletín Oficial del Estado). With effect for tax periods commencing on or after January 1, 2014, this Royal Decree-Laws added a twenty-second additional provision to the TRLIS, enacted by Royal Decree-Law 4/2004, of March 5, "Conversion of deferred tax assets into credits that give rise to a receivable from the tax authorities".

In light of this article, deferred tax assets related to credit loss allowances or other assets for potential debtor insolvency not related to the taxpayer, provided that article 12.2.a) of the TRLIS is not applicable, as well as those related to the application of articles 13.1.b) and 14.1.f) of the same law regarding contributions to employee welfare systems or pensions schemes and, as applicable, provisions for pre-retirement schemes, convert into credits that give rise to a receivable from the tax authorities when any of the following circumstances arise:

a) That the taxpayer recognises accounting losses in its annual accounts (audited and approved by the corresponding body). In this case, the amount of deferred tax assets to be converted will be determined by applying the ratio of accounting losses to the sum of capital and reserves to these deferred tax assets.

b) That the entity is in liquidation or has been legally declared insolvent.

For this conversion of deferred tax assets into a credit that gives rise to a receivable from the tax authorities, the taxpayer may request a credit from the tax authorities or offset the credit with other tax liabilities which the taxpayer itself generates as of the time of conversion.

In addition, these deferred tax assets may be exchanged for Spanish government debt once the legal offset period for tax losses has elapsed (currently 18 years), to be computed as from the accounting recognition of these tax assets.

A new section 13 of article 19 of TRLIS. Timing differences, has been added for determining taxable income/(tax loss) for income tax purposes, with retroactive effect from tax periods commencing on or after January 1, 2011.

In light of the new section 13 of article 19 of the TRLIS, provisions for impairment of loans or other insolvency-related assets vis-à-vis unrelated debtors to which the deductibility limitation provided for in article 12.2.a) of the TRLIS does not apply, as well as allowances or contributions to welfare of early retirement schemes to which the limitations on deductibility provided for in articles 13.1.b) and 14.1.f) of the same law apply, have generated deferred tax assets will be included in the tax base up to the limit of the positive tax base of the year before their inclusion and the offset of tax losses.

Law 27/2014, of November 27

Law 27/2014, of November 27 on Corporate Income Tax (the CIT law or "LIS") was enacted on November 27, 2014 and came into force on January 1, 2015, repealing the Revised Text of the Income Tax Law (TRLIS) approved by Royal Legislative Decree 4/2004, of March 5. Article 11.12 of the new LIS includes the text of the repealed Article 19.13 of the TRLIS, with effect from January 1, 2015, although the new LIS introduced, *inter alia*, certain restrictions and the application of Article 11.12.

Meanwhile, Article 130 of the Corporate Income Tax Law (LIS) included in the new law additional provision twenty-two of the Revised Text of the TRLIS, stating that the aforementioned deferred tax assets may be exchanged for public debt securities after a period of 18 years from the last date of the tax period in which the assets were recognised. For assets recognised before the enactment of the law, the calculation period begins from the date of entry into force.

The new LIS included a change in the corporate income tax rate, setting this rate at 28% for 2015 and 25% from 2016. However, accordingly to section 5 of Article 58 of the LIS, consolidated tax groups that include at least one credit institution will be subject to a 30% tax rate. As the Bank is the parent of its tax group, the tax group continued to pay a CIT rate of 30% in 2015 and will maintain this rate in next years.

Meanwhile Article 26 of the LIS does not pose a time limit on the carryforward of unused tax losses existing in the period beginning on or after the law takes effect on 1 January 2015. In addition, transitional provision twenty-three does not include any time limit on availing of deductions to avoid double taxation established in Articles 30, 31 and 32 of the TRLIS that had not been used as of the period beginning on or after the new law becomes effective.

Law 48/2015, of October 29, on the General State Budgets for 2016

Law 48/2015, of October 29, on the General State Budgets for 2016 was enacted on October 30, 2015. Effective for tax periods beginning on or after January 1, 2016, this law modifies the tax regime to establish the aforementioned conversion, sets new conditions for eligibility for the regime and introduces certain reporting obligations with respect to the deferred tax assets affected by the regulation. It also provides for a transitional regime applicable to deferred tax assets generated before January 1, 2016, whereby unless certain conditions are met, the right to conversion may be retained, although to do so a financial contribution must be paid, which is regulated by the new additional provision 13 of the LIS**.**

Royal Decree Law 3/2016, of December 2

Lastly, Royal Decree Law 3/2016 of December 2, adopting certain tax measures to consolidate public finances and other urgent social measures must be considered. According to this law, impairment losses on investments that were tax deductible for tax periods up to 2013 but not thereafter must be reversed at a minimum annual amount on a straight-line basis over a 5-year period.

This legislation regarding tax periods commencing on or after January 1, 2016 places a limit on the offset of prior year tax losses and tax loss carryforwards of 25% for companies with net revenue of €60 million or more. The same restrictions apply to the reversal of deferred tax assets provided for in article 12.11 of the Corporate Income Tax law. In addition, this Royal Decree places a new limit on the use of double taxation tax credits of 50% of the full income tax charge, and any unused portion may be taken in future tax periods under the same terms and conditions and with no time limit.

In addition, for tax periods commencing on or after January 1, 2017, article 3 of Royal Decree-Law 3/2016 stipulates that losses arising on transfers of shareholdings are not deductible provided that they are eligible for exemption or a tax credit on gains, in respect of dividends or capital gains arising on the transfer of the shares.

Royal Decree Law 27/2018, of December 28

On December 28, Royal Decree Law 27/2018 (the "RDL") was approved, adapting the Law on Corporate Income tax to the new Bank of Spain Circular 4/2017 regarding the application for the first time of IFRS 9, with effect from January 1, 2018.

The RDL includes, among others, the following measures:

Impacts of first-time application (Transitional provision thirty-nine)

- The memorandum of the RDL states that "to reduce the tax effects of this accounting requirement, transitional rules have been put into place, whereby the aforementioned credits and debits are included in the gross income tax base as soon as they have tax effects in accordance with regulations of income tax in equal parts in each of the first three periods beginning on or after January 1, 2018".

- Credits and debits to reserve accounts arising from adjustments for the first-time application of IFRS 9 (when arising from the application of tax regulations) will have tax effects, i.e. they must be taken into consideration for determining the gross corporate income tax base in the 2018 tax period. The law affects credits and debits that do have tax effects, so they are deductible/taxable, and due to the integration by thirds, the provisions of article 130 on monetisation of DTAs will not apply and the deferral by thirds will not give rise to monetisable DTAs.

- This inclusion in equal parts will remain applicable even if the element concerned is retired from the balance sheet. Only if the taxpayer is dissolved over the three tax periods concerned will the remaining amount be included in the gross tax base of the last tax period, unless it is dissolved as a result of a restructuring operation eligible for the tax neutrality regime.

- In accordance with this legislation, the Bank included an amount of €328 thousand this year. It still has €656 thousand left to include.

Accounting for equity instruments under IFRS 9 (Article 17.1 of the TRLIS)

- With the new Circular, investments in equity instruments must be measured at fair value through profit and loss unless the Entity elects irrevocably at inception to present these changes in fair value in other comprehensive income. If this option is elected, a major change in IFRS 9 is that the accumulated gains and losses recognised in other comprehensive income on the disposal are not reclassified to profit or loss (as previously with available-for-sale financial assets), but rather to reserves.

- Accordingly, the RDL, to guarantee the inclusion in the tax base on the disposal, amends article 17.1 of the Spanish Corporate Income Tax Law, so that not only changes in value arising from the application of the fair value criterion are included when they should be taken to profit or loss, but also when they should be recognised in a "reserve account if established by a legal or regulatory standard".

Adaptation of regulations on corporate income tax to Circular 4/2017

- Regarding Circular 4/2017 and the terminology and credit risk loss model adopted, it should be remembered that the deductibility is set out in the regulations on corporate income tax and so far there have been no amendments thereto.

- However, in its introduction, the RDL states: "Lastly, until approval is given for adaptation of the regulatory provisions for credit risk allowances and provisions of financial institutions, prevailing provisions are considered to be applicable, but with the terms used in the new Circular."

25. INCOME STATEMENT

25.1 Interest income, Interest expense, Gains or losses on financial assets and liabilities (net) and Impairment losses (net)

The breakdown of this income statement heading is the following:

	Thousands of euros	
	2018	2017
Interest income		
Balances with central Banks (Note 18.1)	1,330	1,705
Loans and advances to credit institutions	171	25
Loans and advances - Customers	32,717	32,871
Debt securities	19,176	22,261
Doubtful assets	670	249
Other interest	17	17
Total	54,081	57,128
Interest expense		
Deposits from credit institutions (Note 8)	(394)	(557)
Deposits from central Banks	(34)	(102)
Deposits from other creditors	(7,133)	(9,506)
Adjusted hedge transaction expenses	(188)	(172)
Other interest	(3)	(36)
Total	(7,752)	(10,373)

	Thousands of euros	
	2018	2017
Gains or losses on financial assets and liabilities (net)		
Financial assets held for trading	288	407
Other financial instruments at fair value through profit or loss	-	80
Financial assets designated at fair value through profit or loss	(273)	7,980
Others	(559)	-
Total	(544)	8,467
Impairment losses (net)		
Financial assets held for trading	6,952	823
Financial assets designated at fair value through profit or loss	(507)	(1,290)
Held-to-maturity investments	318	576
Financial assets held for trading		
Total	6,763	109

25.2 Fees and Commissions

"Fee and commission income" and "Fee and commission expense" in the accompanying income statement include the amount corresponding to all commissions received, paid and payable accrued during the year, except for those which form an integral part of the effective interest rate on financial instruments. Related recognition criteria are set forth in Note 3.17.

The breakdown of fee and commission income or expenses generated in 2018 and 2017, by concept, is the following:

	Thousands of euros	
	2018	2017
Fee and commission income		
Contingent commitments	552	520
Collection and payment services	2,105	1,979
Securities services	4,411	3,558
Sale of non-banking financial products (Note 23.3)	6,797	7,686
Other fees and commissions	530	710
Total	14,395	14,453
Fee and commission expenses		
Fees and commissions paid to other entities and correspondent banks	(1,864)	(1,682)
Fee and commission expenses on securities transactions	(1,082)	(1,175)
Other fees and commissions	(1,421)	(396)
Total	(4,367)	(3,253)

25.3 Other Operating Income

The breakdown of this income statement heading in 2018 and 2017 is the following:

	Thousands of euros	
	2018	2017
Income from investment properties	500	647
Operating leases	4,040	4,200
Total	4,540	4,847
Contribution to the Deposit Guarantee Fund (Note 2.6)	(1,627)	(1,604)
Other concepts	(1,231)	(1,800)
Total	(2,858)	(3,404)

25.4 Personnel Expenses

The breakdown of this income statement heading is the following:

	Thousands of euros	
	2018	2017
Salaries and bonuses of serving personnel	(17,233)	(15,576)
Social security contributions	(3,949)	(3,554)
Contributions to pension plans (Note 19)	(193)	(50)
Termination benefits	(1,647)	-
Training expenses	(130)	(148)
Other personnel expenses	(661)	(532)
Total	(23,813)	(19,860)

The average number of employees of the Group, by professional category, is as follows:

	Number of employees	
	2018	2017
Managers	104	107
Qualified employees and auxiliary staff	237	223
Total	341	330

At December 31, 2018, the Group employed a total of 341 people, 198 men and 143 women (2017: 330 people, 195 men and 135 women).

25.5 Other Administrative Expenses

The breakdown of this income statement heading is as follows:

	Thousands of euros	
	2018	2017
Property, fixtures and materials	(2,460)	(2,169)
Information technology	(6,899)	(6,907)
Communications	(1,616)	(2,411)
Advertising and publicity	(666)	(678)
Legal and lawyer expenses	(455)	(567)
Technical reports	(2,127)	(1,296)
Surveillance and security carriage services	(666)	(421)
Insurance and self-insurance premiums	(334)	(313)
Governing and control bodies	(432)	(440)
Entertainment and staff travel expenses	(424)	(424)
Association membership fees	(128)	(135)
Outsourced administrative services	(520)	(577)
Contributions and taxes		
Property	(177)	(369)
Other	(641)	(1,104)
Other expenses	(1,331)	(1,475)
Amounts awarded to foundations (Note 22)	(63)	(330)
Total	(18,939)	(19,616)

26. RELATED ENTITIES

The Group's balances and transactions with related parties as of December 31, 2018 and 2017 are the following:

	Thousands of euros	
	Other related parties (*)	
	2018	2017
ASSETS		
Loans and advances	7,174	6,737
LIABILITIES		
Deposits	47,843	36,448
MEMORANDUM ITEMS		
Guarantees extended	180	154
Contingent exposures	1	1
INCOME STATEMENT		
Income:		
Interest and similar income plus fee and commission income	47	116
Expenses:		
Interest and similar expense and fee and commission expense	255	4

(*) Includes balances with members of the Board of Directors and entities related to them.

In 2018, the loans and credit facilities granted to members of the Board of Directors and to entities related to said board members accrued annual interest ranging from 0.23% to 5% (2017: annual interest ranging from 0.26% to 5%).

27. DIRECTOR AND KEY MANAGEMENT PERSONNEL REMUNERATION, PENSION COMMITMENTS TO SERVING AND FORMER MEMBERS OF THE BANK'S BOARD OF DIRECTORS AND REQUIRED TRANSPARENCY DISCLOSURES

27.1 Board of Director and key management remuneration

The members of the Board of Directors of the Parent received the following attendance fees in their capacity as directors in 2018:

	Euros		
2018	Remuneration in cash	Remuneration in kind	Total remuneration
Mateo Velasco Arranz	18,300	1,440	19,740
José Polimón López	39,000	1,440	40,440
Francisco Gil Fernandez	42,400	1,440	43,840
Enrique Serra González	29,100	1,440	30,540
Alfonso Costa Cuadrench	11,100	1,440	12,540
Luis Maria Ortega Basagoiti	14,200	1,440	15,640
Ana Villacañas Beades	15,500	1,440	16,940
Socorro Fernández Larrea	2,000	1,440	3,440
José Manuel Oñoro Perez	22,100	-	22,100
Juan Luis López Cardenete	17,800	-	17,800
TOTAL	211,500	11,520	223,020

	Euros		
2017	Remuneration in cash	Remuneration in kind	Total remuneration
Mateo Velasco Arranz	22,461	2,009	24,470
Alfonso Costa Cuadrench	25,238	2,009	27,247
Luis Maria Ortega Basagoiti	4,846	2,009	6,855
Juan Luis López Cardenete	3,000	1,199	4,199
Francisco Gil Fernandez	42,308	2,009	44,317
José Manuel Oñoro Perez	41,777	2,009	43,786
Clemente Solé Parellada	1,231	810	2,041
Juan Luis Canadell Fernandez	8,462	3,645	12,107
Juan Solé Martin	4,615	-	4,615
Enrique Serra González	27,900	1,199	29,099
José Polimón López	43,092	2,009	45,101
TOTAL	224,930	18,907	243,837

During 2017 and 2018, the members of the Board of Directors of Directors have not received any other form of remuneration from the Bank, except for those perceived by the Chairman and the Managing Director as employees of the Parent Company.

In addition, the Parent or the natural persons who represent it received remuneration for sitting on the boards of other companies and attending their meetings in the amount of €103 thousand in 2018 (2017: €99 thousand).

The Parent deems the following people its key management personnel: the executive chairman, three Managing Directors and integrated person to the General Management, who received in total €1,162 thousand of remuneration in total in 2018 (in 2017, the Entity similarly deemed its key management personnel to be the executive chairman, the four managers registered with the Bank of Spain and the Barcelona manager and their total remuneration amounted to €848 thousand).

The Group's key management personnel also benefit from pension commitments (a group life insurance policy) in respect of which €132 thousand was paid to insurance providers in the form of premiums in 2018 (2017: €98 thousand euros). They similarly benefit from a corporate employee benefits plan which has been endowed by €2 thousand in total to date (2017: €2 thousand euros).

In 2018, the Group paid €53 thousand of civil liability insurance premiums on behalf of the Parent's directors covering potential damages caused in the course of carrying out their duties (2017: €41 thousand).

The Parent has no obligation to pay termination benefits in excess of the legally-stipulated amounts in the event of the resignation or discontinuation of key management personnel.

27.2 Director conflicts of interest

As required by article 229 of the Corporate Enterprises Act, the directors have informed the Bank that in 2015 they or their related parties, as defined in 231 of the said Corporate Enterprises Act:

- Did not perform transactions with the Entity other than those performed in the ordinary course of business, arranged at arm's length and of scant materiality, understood as transactions whose disclosure is not needed to present fairly the Entity's financial situation or performance.
- Did not use the Entity's name or their position as directors to unduly influence the arrangement of private transactions.
- Did not avail of the Company's assets, including its confidential information, for private use.
- Did not take advantage of the Entity's business opportunities.
- Did not obtain undue advantage or compensation from third parties in the course of the performance of their jobs, other than tokens of courtesy.
- Did not perform activities, whether as independent professionals or employees, implying effective competition, whether ad-hoc or potential, with the Entity or that in any other way constitute an ongoing conflict with respect to the Entity's interests.

28. ADDITIONAL INFORMATION

28.1 Customer Services

In conformity with Ministry of Economics Order ECO/734/2004, of March 11, on customer service departments, customer services and financial ombudsmen for credit institutions, and article 25 of the Entity's Regulations for Defending Customers' Rights, the annual report states that:

A total of 117 complaints and claims (4 complaints and 113 claims) were received in 2018, all of which were processed and reported on by the Customer Service Department; 96 were ruled on and answered directly by the Customer Service Department and 21 were handled by the Customer Ombudsman, in keeping with applicable rules. One claim entailed the payment by the Group of a total sum of €6,849.38 to customers. 5 claims were brought by customers in front of the Bank of Spain, which duly ruled on them.

A total of 536 complaints and claims (5 complaints and 531 claims) were received in 2017, all of which were processed and reported on by the Customer Service Department; 311 were ruled on and answered directly by the Customer Service Department and 225 were handled by the Customer Ombudsman, in keeping with applicable rules. Three claims entailed the payment by the Group of a total sum of €199.16 to customers. 9 claims were brought by customers in front of the Bank of Spain, which duly ruled on them.

28.2 Agency agreements

The Bank did not have any "agency agreements" as defined in article 22 of Royal Decree 1245/1995, of July 14, 1995, at year-end 2018 or 2017 or at any time during those years.

28.3 Equity interests in credit institutions

At December 31, 2018 and 2017, the Bank held 5% or more of the equity or voting rights of the following credit institutions:

	%	
	2018	2017
Bancofar, S.A.	81.38	81.29

28.4 Environmental impact and greenhouse gas emission rights

Given the activity in which the Group engages, it has no environmental liabilities, expenses, assets, provisions or contingencies that could have a significant effect on its equity, financial situation and results. Consequently, these notes to the financial statements do not include specific details regarding environmental issues.

The Group does not have any greenhouse gas emission rights.

28.5 Audit fees

The fees paid for the audit of the financial statements and other services rendered to the Group in 2018 and 2017 were the following:

	Thousands of euros		
	Audit of financial statements	Other services	Total
2018			
Ernst & Young	105	49	154
Other firms	50	-	50
Total	155	49	204

	Thousands of euros		
	Audit of financial statements	Other services	Total
2017			
Ernst & Young	102	79	181
Other firms	41	-	41
Total	143	79	222

The services commissioned by the Bank of its auditor comply with the independent requirements stipulated in prevailing financial statement audit law and do not contemplate the performance of work not deemed compatible with the audit function.

28.6 Unclaimed balances and deposits

The Group has no unclaimed accounts as described in article 18 of Law 33/2003, of November 3, on equity in public bodies.

28.7 Disclosures regarding average supplier payment terms

On July 5, 2010, Spain published Law 15/2010, amending Law 3/2004 of December 29, 2004, establishing measures to tackle supplier non-payment.

Among other measures, the new legislation eliminates scope for “agreements among the parties” with respect to extending supplier payment terms. The legislation came in response to the financial ramifications of the economic crisis on all sectors which was translating into an increase in non-payment and delays in settling past due invoices, with particularly serious consequences for small and medium sized companies owing to their high dependence on short-term credit, all of which compounded by the liquidity crunch. In addition, in order to tackle these issues, the law sets a general maximum term for payment among companies of 60 calendar days from the date of delivery of the merchandise or performance of the service which took effect on January 1, 2013.

The table below provides the disclosures required under additional provision three of Law 15/2010 using the templates provided in the Resolution issued by the Spanish Audit and Accounting Institute (ICAC) on January 29, 2016 regarding the information to be disclosed in the financial statement notes in relation to the average term of payment to trade suppliers:

	Days	
	2018	2017
Average supplier payment terms	17.81	16.25
Paid transactions ratio	18	15.78
Outstanding transactions ratio	111	29
	Amount (Thousands of euros)	
Total amount of payments made	14,852	14,428
Total amount pending payment	15	534

28.8 Other commitments

At December 31, 2018 and 2017, the Group did not have any commitments in addition to those described in these notes to the financial statements.

28.9 Earnings per share

During 2018 and 2017, Banco Caminos, S.A. had 3,515,530 shares; the individual earnings per share were €2.33 during 2018, and €2.23 during 2017. These amounts correspond to both basic and diluted earnings per share, as there are no instruments which can be considered potential shares.

28.10 Other consolidated public disclosures required under Bank of Spain Circular 4/2017

The other consolidated public disclosures required under Bank of Spain Circular 4/2017 are provided below:

- The balances presented by the Bank in respect of refinancing and restructuring transactions extended to third parties at December 31, 2018 and 2017 are provided in note 7.1.3.

- Note 7.1.2 includes the disclosures required regarding the loans extended to finance construction work, real estate developments and the purchase of homes at December 31, 2018 and 2017.

- Note 7.1.2 also provides the required disclosures regarding assets foreclosed or received in payment of debt at December 31, 2018 and 2017.

- The breakdown by individual activity of the loans to customers recognized by the Bank at December 31, 2018 and 2017 are provided in note 7.1.1.

- The concentration of exposures by individual activity and regions at December 31, 2018 and 2017 is disclosed in note 7.1.1.

29. EVENTS AFTER THE BALANCE SHEET DATE

No other significant event has occurred between December 31, 2018 and March 27, 2019, the date on which the Board of Directors of the Banco Caminos, S.A. authorized the issuance of its consolidated financial statements, warranting disclosure in the accompanying consolidated financial statements in order to ensure fair presentation of the Bank's equity, financial situation or performance.

30. ADDITIONAL EXPLANATION REGARDING THE TRANSLATION OF THE CONSOLIDATED FINANCIAL STATEMENTS INTO ENGLISH

This document is a translation of the consolidated financial statements originally issued in Spanish, In the event of a discrepancy, the Spanish language version prevails.

The accounting policies applied by Banco Caminos, S.A. and subsidiaries in the consolidated financial statements conform to the International Financial Reporting Standards adopted by the European Union, which may differ from generally accepted accounting principles in other countries.

APPENDIX I

2018

SUBSIDIARIES

		%		Thousands of euros					
		Ownership interest		Net carrying amount		Remaining equity	Dividends		
Company	Registered address	Direct	Indirect		2018		Complementary	Interim	Business
Bancofar, S.A.	C/ Fortuny, 51	81.38	-	43,150	3,593	95,574	1,259	-	Credit institution
Corporación Banco Caminos, S.L.U.	C/ Almagro, 8	100.00	-	30,000	725	34,017	-	-	Purchase and holding of shares, equity investments, or debt instruments of other companies
FAM Caminos, S.A.	C/ Almagro, 42	-	80.00	5,384	817	4,903	153	-	Insurance broker
Gabinete de Estudio y Gestión Jurídica, S.A.	C/ Almagro, 8	64.76	35.24	24,874	15	29,888		-	Asset acquisition, management, and sale
Gefonsa, S.V,. S.A.U.	C/ Fernando el Santo, 3	-	100.00	3,585	61	8,526	202	-	Brokerage
Gespensión Caminos, E.G.F.P,. S.A. U.	C/ Fernando el Santo, 3	-	100.00	9,203	635	11,311	369	-	Investment funds management
Gestifonsa, S.G.I.I.C,. S.A.U.	C/ Almagro, 8	-	100.00	694	758	3,495	582	-	UCITS management
Maxlan, S.A.U.	C/ Almagro, 8	100.00	-	14,522	161	14,698	-	-	Land development, management, purchase, and sale
Servifonsa, A.I.E.	C/ Almagro, 8	87.27	12.73	250	-	250	-	-	Administrative, financial, and accounting services
Sistemcam, S.A.U.	C/ Almagro, 8	-	100.00	602	89	1,196	-	-	IT Services

2017

SUBSIDIARIES

Company	Registered address	% Ownership interest Direct	% Ownership interest Indirect	Thousands of euros Net carrying amount	2017	Remaining equity	Dividends Complementary	Dividends Interim	Business
Bancofar, S.A.	C/ Fortuny, 51	81.29	-	43,082	3,094	94,027	854	-	Credit institution
Corporación Banco Caminos, S.L.U.	C/ Almagro, 8	100.00	-	30,000	539	33,478	-	-	Purchase and holding of shares, equity investments, or debt instruments of other companies
FAM Caminos, S.A.	C/ Almagro, 42	-	80.00	5,097	960	4,137	127	-	Insurance broker
Gabinete de Estudio y Gestión Jurídica, S.A.	C/ Almagro, 8	64.76	35.24	24,874	9	29,900	-	-	Asset acquisition, management, and sale
Gefonsa, S.V,. S.A.U.	C/ Fernando el Santo, 3	-	100.00	3,585	503	8,237	320	-	Brokerage
Gespensión Caminos, E.G.F.P., S.A. U.	C/ Fernando el Santo, 3	-	100.00	9,203	923	10,758	367	-	Investment funds management
Gestifonsa, S.G.I.I.C., S.A.U.	C/ Almagro, 8	-	100.00	694	1,172	2,912	375	-	UCITS management
Maxlan, S.A.U.	C/ Almagro, 8	100.00	-	14,521	55	14,644	-	-	Land development, management, purchase, and sale
Servifonsa, A.I.E.	C/ Almagro, 8	87.27	12.73	250	-	250	-	-	Administrative, financial, and accounting services
Sistemcam, S.A.U.	C/ Almagro, 8	-	100.00	602	42	1,149	-	-	IT Services

APPENDIX II

The summary separate balance sheet of Banco Caminos, S.A. as of December 31 is as follows:

	Thousands of euros	
ASSETS	2018	2017
Cash, cash balances at central banks and other demand deposits	170,483	163,676
Financial assets held for trading	974	1,065
Financial assets not held for trading mandatorily measured at fair value through profit or loss	69,879	-
Financial assets designated at fair value through profit or loss	1,162,405	1,231,025
Financial assets at amortised cost	1,148,527	1,023,848
Derivatives - hedge accounting	1,607	-
Investments in joint ventures and associates	98,843	98,119
Tangible assets	1,161	1,323
Tax assets	11,857	10,164
Other assets	585	436
Non-current assets and disposal groups classified as held for sale	391	391
TOTAL ASSETS	2,666,712	2,530,047
LIABILITIES		
Financial liabilities measured at amortized cost	2,485,180	2,348,895
Derivatives - hedge accounting	1,641	-
Provisions	7,497	11,314
Tax liabilities	9,979	9,832
Other liabilities	3,812	3,496
TOTAL LIABILITIES	2,508,109	2,373,537
EQUITY		
Own funds	142,424	133,744
Accumulated other comprehensive income	16,179	22,766
TOTAL EQUITY	158,603	156,510
TOTAL LIABILITIES AND EQUITY	2,666,712	2,530,047
PRO-MEMORIA		
Contingents risks	*58,454*	*59,018*
Contingents commitments	*17,267*	*17,805*
Other contingents	*43,318*	*43,217*

The summary separate income statement of Banco Caminos, S.A. as of December 31 is as follows:

	Thousands of euros	
	2018	2017
Interest income	33,375	36,366
(Interest expense)	(5,487)	(7,775)
(A) INTEREST MARGIN	27,888	28,591
Dividend income	1,488	1,174
Commission income	4,975	4,377
(Commission expenses)	(2,162)	(1,889)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(255)	7,508
Gains or (-) losses on financial assets and liabilities held for trading, net	352	611
Gains or (-) losses on non-trading financial assets mandatorily measured at fair value through profit or loss, net	(551)	-
Exchange differences [gain or (-) loss], net	233	(112)
Other operating income	763	1,175
(Other operating expenses)	(2,052)	(2,348)
(B) GROSS MARGIN	30,679	39,087
(Administrative expenses)	(22,937)	(22,684)
(Amortization)	(228)	(321)
(Provisions or (-) reversal of provisions)	139	(5,481)
(Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss or (-) net gain on change)	3,389	(471)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures or associates)	(243)	93
(Impairment or (-) reversal of impairment of non-financial assets)	-	-
Gains or (-) losses on derecognition of non-financial assets, net	(21)	183
Negative goodwill recognized in profit or loss	-	-
Gains or (-) losses on non-current assets and disposal groups of items classified as held for sale that are ineligible for sale as discontinued operations	-	(138)
(C) PRE-TAX PROFITS OR (-) LOSSES FROM CONTINUING OPERATIONS	10,778	10,268
(Expenses or (-) income from taxes on the results of continuing activities)	(2,578)	(2,401)
(D) PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS	8,200	7,867
Profit or (-) loss after tax from discontinued operations	-	-
(E) PROFIT OR LOSS FOR THE YEAR	8,200	7,867

The summary separate statement of changes in equity of Banco Caminos, S.A. as of December 31 is as follows:

I. Consolidated income statements at December 31, 2018

	Thousands of euros	
	2018	2017
PROFIT (LOSS) FOR THE PERIOD	8,200	7,867
Other comprehensive income	(7,603)	1,496
Items that will not be reclassified to profit or loss	-	-
Items that may be reclassified to profit or loss	(7,603)	1,496
Financial assets designated at fair value through profit or loss	(10,861)	2,136
Tax effect of items that may be reclassified to profit or loss	3,258	(640)
Total comprehensive income for the year	597	9,363

Banco Caminos, S.A. Consolidated statement of total changes in equity at December 31

II. Total changes in equity

	Thousands of euros											
Sources of equity changes	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit/(loss) for the year	(-) Interim dividends	Accumulated Other Comprehensive Income	Total
Opening balance at 2017 [before restatement]	27,491	29,028	-	-	62,689	-	-	(422)	7,015	-	21,270	147,071
Opening balance at 2017	27,491	29,028	-	-	62,689	-	-	(422)	7,015	-	21,270	147,071
Total comprehensive income for the period	-	-	-	-	-	-	-	-	7,867	-	1,496	9,363
Other changes in equity	-	-	-	-	7,037	-	-	54	(7,015)	-	-	76
Purchase of treasury shares	-	-	-	-	-	-	-	(56)	-	-	-	(56)
Sale or cancellation of treasury shares	-	-	-	-	22	-	-	110	-	-	-	132
Transfers among components of equity	-	-	-	-	7,015	-	-	-	(7,015)	-	-	-
Closing balance at 2017	27,491	29,028	-	-	69,726	-	-	(368)	7,867	-	22,766	156,510
Effects of changes in accounting policies	-	-	-	-	689	-	-	-	-	-	1,016	1,705
Opening balance at 2018	27,491	29,028	-	-	70,415	-	-	(368)	7,867	-	23,782	158,215
Total comprehensive income for the period	-	-	-	-	-	-	-	-	8,200	-	(7,603)	597
Other changes in equity	-	-	-	-	7,894	-	-	(236)	(7,867)	-	-	(209)
Purchase of treasury shares	-	-	-	-	-	-	-	(4,865)	-	-	-	(4,865)
Sale or cancellation of treasury shares	-	-	-	-	27	-	-	4,629	-	-	-	4,656
Transfers among components of equity	-	-	-	-	7,867	-	-	-	(7,867)	-	-	-
Closing balance at 2018	27,491	29,028	-	-	78,309	-	-	(604)	8,200	-	16,179	158,603

The summary separate cash flow statement of Banco Caminos, S.A. as of December 31 is as follows:

	Thousands of euros	
	2018	2017
(A) CASH FLOWS FROM OPERATING ACTIVITIES	8,049	58,278
Profit for the year	8,200	7,867
Adjustments to obtain cash flows from operating activities	(3,892)	(7,739)
Net increase/decrease in operating assets	(132,904)	(90,223)
Net increase/decrease in operating liabilities	139,749	151,450
Income Tax Collections/Payments	(3,104)	(3,077)
(B) CASH FLOWS FROM INVESTING ACTIVITIES	(1,033)	1,492
Payment	(1,195)	(129)
Collections	162	1,621
(C) CASH FLOWS FROM FINANCING ACTIVITIES	(209)	76
Payment	(4,865)	(56)
Collections	4,656	132
(D) THE EFFECT OF CHANGES IN EXCHANGE RATES	-	-
(E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	6,807	59,846
(F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	163,676	103,830
(G) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	170,483	163,676
MEMORANDUM ITEM: COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD,		
PERIOD	*1,074*	*961*
Cash	*145,637*	*123,087*
Cash equivalents at central banks	*23,772*	*39,628*
Other financial assets	-	-

APPENDIX III

BANCO CAMINOS, S.A. AND ITS CONSOLIDATED GROUP
ANNUAL BANKING REPORT

The information required to comply with the provisions of article 87.1 of Law 10/2014, of June 26, 2014, on the structuring, supervision and capital adequacy of credit institutions, is provided below.

a) The name(s), nature of activities and geographical location of the Bank

The standard and regular business activity of Banco Caminos, S.A. is to receive funds from the public in the form of deposits, loans, the temporary transfer of financial assets and equivalent arrangements associated with the requirement to repay them, using such funds on its own account to grant loans, award credit or enter into other transactions of a similar nature that service the financial needs of its customers. To this end it may perform all the asset, liability and service transactions permitted of a credit institution. It mainly operates in Spain, on a nationwide basis, without prejudice to the scope for developing the legally-permitted services outside of Spain in the future. The Bank carries on its activities via two offices located in Madrid and Barcelona.

b) Revenue, profit before tax, income tax and public subsidies received (data for the consolidated Group)

	Thousands of euros	
	2018	2017
Interest and similar income	54,081	57,128
Profit before tax	17,602	17,624
Income tax expense	(5,113)	(4,566)
Public subsidies received	-	-

c) Number of full-time employees

	No, of people	
	2018	2017
Number of full-time employees	341	330

The return on assets, calculated as net profit divided by the total balance sheet, was 0.37% in 2018 (2017: 0.41%).

BANCO CAMINOS, S.A. AND CONSOLIDATED GROUP ENTITIES
GROUP MANAGEMENT

REPORT FOR 2018

Once again in 2018, in contrast to what had happened in the past, the emergence of certain external shocks had an impact on the various world economies, prompting the central banks to temporarily adapt their monetary policies.

The monetary stimuli provided by ultra-low rates and the injection of abundant liquidity into the financial system have had a positive impact on reactivating consumer spending, investment and employment in recent years. In 2018, new factors emerged that were really not expected such as the start and subsequent intensification of a trade war between the US and China and the increase in uncertainty surrounding Britain's exit from the EU.

The heightened trade tensions in particular caused collateral damage to a broader spectrum of the global economy, triggering a loss of momentum, especially in the final months of the year. The markets reacted to this new paradigm by bidding the yields on the highest quality fixed-income securities and the prices of commodities and stocks lower.

In the US, the Federal Reserve reacted by leaving its benchmark rate at 2.25% at the end of the year and tempering expectations for further rate hikes in the course of 2019. The current rate level is considered appropriate and aligned with prevailing financial stability conditions. In parallel, US GDP trended at similar rates to those observed throughout 2017 for most of the year, ending the year at 2.9%, showing no signs for now of inflation, which was contained at 1.9%, while unemployment fell to an all-time low of 3.9%.

In response to the loss of momentum, particularly in Germany and Italy, the European Central Bank stuck with its roadmap for gradually withdrawing its asset repurchases (under the Corporate Sector Purchase Programme - CSPP) and moving towards monetary policy normalization during the first half of the year . Elsewhere, until the above-mentioned exogenous factors affecting the eurozone dissipate, benchmark rates remain anchored at -0.40%. All signs suggest that inflation will remain subdued in the medium term. It did not move substantially in 2018, even in the face of wage growth, ending the year at 1.5%. GDP growth eased to 1.8%, from 2.7% in 2017, while job creation left the unemployment rate at 7.8%.

Growth in Spain was among the highest in the eurozone. GDP growth came in at 2.4%, underpinned by dynamic internal demand (+2.7% year-on-year), while the external sector detracted from growth (-0.3%). It is worth highlighting the resilience of internal support factors such as household spending (+2.2%), boosted by a significant contribution by the public sector (+3.0%). As in 2017, gross fixed capital formation was strong at 4.6%.
In tandem, the Spanish economy continued to create jobs at a year-on-year pace of 2.6%, so that the unemployment rate fell from 16.6% to 14.3% by year-end. The most buoyant sectors were the construction (+11.5%) and services sectors (+2.7%).

The persistence of ultra-low interest rates spelled another challenging year for the banks. While the sustained economic growth has paved the way for a recovery in demand and consumption and a gradual reduction in non-performance, interest margins in contrast remain at quasi-minimum levels, forcing the banks to eke out efficiency gains at multiple levels, specifically including digital transformation.

The Banco Caminos-Bancofar Group navigated this scenario producing positive results in terms of growth, while continuing to successfully execute its Business Plan, marked by technological evolution and investment in people in a bid to broaden its spectrum of recurring banking business lines, adapted to the needs of our customers.

Profit for the year before tax amounted to €17,602 thousand, virtually flat year-on-year (2017: €17,624 thousand).

The Group's assets increased in line with the growth registered in 2017. Assets ended the year at €3,400,499 thousand, growth of €195,260 thousand from year-end 2017.

Liabilities, meanwhile, sustained very similar growth in absolute terms, increasing by €189,244 thousand, or 6.4%, from €2,969,863 thousand at year-end 2017 to close 2018 at €3,159,107 thousand.

Customer deposits experienced the strongest growth, contributing €184,956 thousand. Despite the fact that 2018 was a challenging year in the capital markets on account of the stock market corrections, the Group's customer funds - on- and off-balance sheet - registered noteworthy growth of 3.8% year-on-year.

Lastly, profit after tax amounted to €12,489 thousand. As a result, equity increased by 6.3% to €205,619 thousand.

It is also worth singling out the results of the Group's continuous effort to manage and monitor its non-performing loans, which ended the year at 5.76%; this effort is expected to remain one of the Entity's key drivers in 2019. Similarly, the NPL coverage ratio remained at the upper end of the range for the sector, at 72.8%.
The healthy trend in the above indicators facilitated strong growth in its common equity tier 1 (CET 1) capital, which increased from 13.54% to 14.95%. That high absolute level provides the Entity with reasonable assurance regarding its ability to consolidate the foundations for higher growth in the years to come.

The disclosures regarding the purchase and sale of own Banco Caminos, S.A. shares are provided in the accompanying 2018 consolidated statement of changes in equity. The required disclosures regarding financial instrument risk management are provided in note 7 of the accompanying financial statements and the information regarding the average supplier payment terms is provided in note 28.7. The Bank did not conduct any research and development work in 2018 or 2017.

The members of the Board of Directors of Banco Caminos S.A. authorized the issuance of the financial statements and management report for the year ended December 31, 2018 at a meeting held on March 27, 2019; the said documents state that they were prepared in accordance with the financial principles applicable to the Entity and present fairly the equity, financial position and financial performance of Banco Caminos S.A.

No events have taken place between January 1, 2019 and the date of authorizing the issuance of these financial statements that affect the Bank's financial position or performance.

Lastly, we would like to underscore the fact that these positive results were possible thanks to the contribution of all of our people and stakeholders: from the Board of Directors and the Entity's professionals to the invaluable contribution of our customers and shareholders. It is they who give meaning to the Banco Caminos-Bancofar Group and its mission.

The members of the Board of Directors of Banco Caminos, S.A. approved the issuance of the consolidated financial statements and the consolidated management report for the year ended December 31, 2018 at a meeting held on March 27, 2019 and state that, to the best of their knowledge, the 2018 consolidated and individual financial statements have been prepared in accordance with applicable accounting principles and give a true and fair view of the equity, financial position and results of Banco Caminos, S.A. and the consolidated companies taken as a whole, and that the accompanying management report includes a fair analysis of the Group's business performance, earnings and position, as well as a description of the main risks and uncertainties facing them.

(Signed on the original in Spanish)
Mr. Mateo Velasco Arranz
Chairman

(Signed on the original in Spanish)
Mr. José Polimón López
Vice- chairman

(Signed on the original in Spanish)
Mr. Enrique Serra González
Chief Executive Officer

(Signed on the original in Spanish)
Mr. Francisco Gil Fernández
Secretary

(Signed on the original in Spanish)
Mr. Alfonso Costa Cuadrench
Member

(Signed on the original in Spanish)
Mrs. Socorro Fernandez Larrea
Member

(Signed on the original in Spanish)
Mr. Ana Villacañas Beades
Member

(Signed on the original in Spanish)
Mr. Luis María Ortega Basagoiti
Member