

Allfunds Bank, S.A. and Subsidiaries composing the Allfunds Bank Group

Consolidated Financial Statements and
Directors' Report for the year ended 31
December 2016, together with
Auditor's Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 31). In the event of a discrepancy, the Spanish-language version prevails.

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 31). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Allfunds Bank, S.A.,

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Allfunds Bank, S.A. ("the Bank") and Subsidiaries composing, together with the Bank, the Allfunds Bank Group ("the Group"), which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Bank's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of the Allfunds Bank Group in accordance with the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 1-b to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Bank's directors of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Allfunds Bank Group as at 31 December 2016, and its consolidated results and consolidated cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Group in Spain and, in particular, with the accounting principles and rules contained therein.

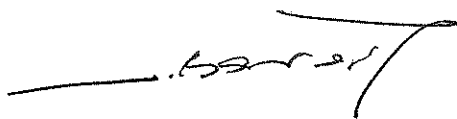
Emphasis of Matter

We draw attention to Note 2-j to the accompanying consolidated financial statements for 2016, in which the Bank's directors indicate that on 3 March 2011, Fairfield Sentry Limited and Fairfield Sigma Limited ("the Funds"), both in liquidation and affected by the so-called Madoff case, filed a claim at the United States Bankruptcy Court for the Southern District of New York against a distributor company outside the Allfunds Bank Group and against the Bank, as a result of the reimbursements made prior to December 2008, through the Bank, in accordance with the instructions of the aforementioned distributor company, because, in the opinion of the liquidators of the Funds, among other reasons, incorrect payments were made and unjust enrichment had resulted from such reimbursements in the amount of USD 3,505,471.33 (approximately EUR 3,326 thousand). The aforementioned Note to the consolidated financial statements also indicates that, although an application for the dismissal of the claim was filed, to which the Bankruptcy Court for the Southern District of New York has not yet responded, the Bank's directors consider that, ultimately, the Group will not have to bear any possible adverse consequences of the aforementioned proceedings, since they understand that the Group acted merely as an intermediary and did not benefit, in any case, from the reimbursements performed. Therefore, no provision was recognised in connection with this litigation in the accompanying consolidated balance sheet of the Group as at 31 December 2016. Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2016 contains the explanations which the Bank's directors consider appropriate about the Allfunds Bank, S.A. and Subsidiaries composing's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the consolidated financial statements for 2016. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Allfunds Bank, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692



Carmen Barrasa Ruiz

23 June 2017

ALLFUNDS BANK GROUP
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016 AND 2015
(Thousands of Euros)

ASSETS	Notes	2016	2015 (*)	LIABILITIES AND EQUITY	Notes	2016	2015 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS	6	389,070	408,312	LIABILITIES			
FINANCIAL ASSETS HELD FOR TRADING:	9 and 19	639	444	FINANCIAL LIABILITIES HELD FOR TRADING:	9 and 19	466	304
Derivatives		639	444	Trading Derivatives		466	304
<i>Memorandum item: Lent or delivered as guarantee with disposal or pledge rights</i>		-	-	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
		-	-	<i>Memorandum item: Subordinated liabilities</i>		-	-
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-	FINANCIAL LIABILITIES AT AMORTISED COST:	14	604,971	546,741
<i>Memorandum item: Lent or delivered as guarantee with disposal or pledge rights</i>		-	-	Deposits		466,957	382,350
		-	-	Credit institutions		233,172	186,944
		-	-	Customers		233,785	195,406
AVAILABLE-FOR-SALE FINANCIAL ASSETS:	7	10,211	20,200	Other financial liabilities		138,014	164,391
Equity instruments		193	193	<i>Memorandum item: Subordinated liabilities</i>		-	-
Debt instruments		10,018	20,007	HEDGING DERIVATIVES		-	-
<i>Memorandum item: Lent or delivered as guarantee with disposal or pledge rights</i>		-	-	FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
		-	-	PROVISIONS		-	-
LOANS AND RECEIVABLES:	8	344,435	276,730	TAX LIABILITIES:	12	1,766	5,970
Loans and advances		344,435	276,730	Current		1,681	5,906
To Central Banks		3,539	2,923	Deferred		85	64
To Credit institutions		329,792	262,327	OTHER LIABILITIES		157,130	159,194
To Customers		11,104	11,480	LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	13	-	-
<i>Memorandum item: Lent or delivered as guarantee with disposal or pledge rights</i>		-	-	TOTAL LIABILITIES		764,333	712,209
		-	-				
HELD-TO-MATURITY INVESTMENTS		-	-				
<i>Memorandum item: Lent or delivered as guarantee with disposal or pledge rights</i>		-	-				
		-	-				
HEDGING DERIVATIVES		-	-				
FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGE OF INTEREST RATE RISK		-	-				
INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES		-	-				
TANGIBLE ASSETS:	10	6,616	4,003	EQUITY:			
Property, plant and equipment – For own use		6,616	4,003	SHAREHOLDERS FUNDS:	15	173,377	185,943
<i>Memorandum item: other assets leased out under finance lease</i>		-	-	Paid up capital	16	27,041	27,041
		-	-	Retained earnings	17	124,379	117,362
INTANGIBLE ASSETS:	11	5,099	3,939	Profit or loss attributable to owners of the parent		69,074	75,983
Other intangible assets		5,099	3,939	Less: Interim dividends	3	(47,117)	(34,443)
TAX ASSETS:	12	580	14	ACCUMULATED OTHER COMPREHENSIVE INCOME	7	202	152
Current		78	14	Items that may be reclassified to profit or loss		202	152
Deferred		502	-	Available for sale financial assets		19	21
OTHER ASSETS:	13	181,262	184,662	Foreign currency translation		183	131
Rest		181,262	184,662	MINORITY INTERESTS [NON CONTROLLING INTERESTS]		-	-
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE		-	-	TOTAL EQUITY		173,579	186,095
TOTAL ASSETS		937,912	898,304	TOTAL LIABILITIES AND EQUITY		937,912	898,304
MEMORANDUM ITEMS:							
Contingent liabilities		-	-				
Contingent commitments	18	50,071	48,091				

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 31 and Appendices I and II are an integral part of the consolidated balance sheet as at 31 December 2016.

ALLFUNDS BANK GROUP
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015
(Thousands of Euros)

	Notes	Income/(Expenses)	
		2016	2015 (*)
INTEREST INCOME	20	1,284	3,989
INTEREST EXPENSES	21	(295)	(138)
NET INTEREST INCOME		989	3,851
DIVIDEND INCOME		-	-
SHARE OF PROFIT OR LOSS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD		-	-
FEE AND COMMISSION INCOME	22	732,521	742,732
FEE AND COMMISSION EXPENSES	23	(578,008)	(586,863)
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	24	173	139
GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET		-	-
GAINS OR LOSSES FROM HEDGE ACCOUNTING, NET		-	-
EXCHANGE DIFFERENCES, NET		319	72
OTHER OPERATING INCOME	26	708	834
OTHER OPERATING EXPENSES	26	(535)	(705)
GROSS INCOME		156,167	160,060
ADMINISTRATION COSTS:			
<i>Personnel expenses</i>	25	(57,472)	(48,116)
<i>Other administrative expenses</i>		(28,941)	(25,549)
DEPRECIATION	10 and 11	(2,273)	(3,693)
PROVISIONS OR REVERSAL PROVISIONS		-	-
IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
<i>Loans and receivables</i>	8	81	(640)
		81	(640)
NET OPERATING INCOME		96,503	107,611
IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS OF INVESTMENT IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES		-	-
IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON NON-FINANCIAL ASSETS	10	(138)	(6)
<i>Tangible assets</i>		(138)	(6)
GAINS/(LOSSES) ON DERECOGNIZED OF NON FINANCIAL ASSETS AND SUBSIDIARIES, NET		-	-
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		-	-
OPERATING PROFIT BEFORE TAX		96,365	107,605
TAX EXPENSE OR INCOME RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATION	12	(27,291)	(31,622)
PROFIT FROM CONTINUING OPERATIONS		69,074	75,983
PROFIT FROM DISCONTINUED OPERATIONS (net)		-	-
PROFIT		69,074	75,983
<i>Attributable to owners of the parent</i>		69,074	75,983
<i>Attributable to minority interest [non-controlling interests]</i>		-	-

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 31 and Appendices I and II are an integral part of the consolidated income statement for 2016.

ALLFUNDS BANK GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

A) CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Thousands of Euros)

	Income/(Expenses)	
	2016	2015 (*)
PROFIT RECOGNISED IN INCOME STATEMENT	69,074	75,983
OTHER RECOGNIZED INCOME (EXPENSES)	50	149
Items not subject to reclassification to income statement	-	-
Actuarial gains and losses from defined benefit pension plans	-	-
Non-current assets available for sale	-	-
Other adjustments	-	-
Income tax relating to items not subject to reclassification to income statement	-	-
Items subject to reclassification to income statement	50	149
Hedge of net investments in foreign operations (effective portion)	-	-
Foreign currency translation	74	183
<i>Valuation gains or losses from currency translation taken to equity</i>	74	183
Cash flow hedges	-	-
Available for sale financial assets:	(3)	30
<i>Valuation gains or losses taken to equity</i>	(3)	30
Non-current assets and disposal groups classified as held for sale	-	-
Income tax	(21)	(64)
TOTAL RECOGNISED INCOME AND EXPENSE:	69,124	76,132
Attributable to the parent company	69,124	76,132
Attributable to minority interest [non-controlling interests]	-	-

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 31 and Appendices I and II are an integral part of the consolidated statement of recognised income and expense for 2016.

ALLFUNDS BANK GROUP
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015 (cont.)

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

(Thousands of Euros)

2016

	TOTAL EQUITY							
	Shareholders' Funds					Accumulated other comprehensive income	Non-Controlling interests	Total Equity
	Paid up Capital	Retained Earnings	Profit or Loss	Interim dividends	Total Shareholders' Funds			
Ending balance at 31 December 2015	27,041	117,362	75,983	(34,443)	185,943	152	-	186,095
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-
Adjusted beginning balance at 1 January 2016	27,041	117,362	75,983	(34,443)	185,943	152	-	186,095
Total income/expense recognized	-	-	69,074	-	69,074	50	-	69,124
Other changes in equity	-	7,017	(75,983)	(12,674)	(81,640)	-	-	(81,640)
Transfers between total equity entries	-	24,259	(58,702)	34,443	-	-	-	-
Dividend distribution	-	(17,242)	(17,281)	(47,117)	(81,640)	-	-	(81,640)
Ending balance at 31 December 2016	27,041	124,379	69,074	(47,117)	173,377	202	-	173,579

2015 (*)

	TOTAL EQUITY							
	Shareholders' Funds					Accumulated other comprehensive income	Non-Controlling interests	Total Equity
	Paid up Capital	Retained Earnings	Profit or Loss	Interim dividends	Total Shareholders' Funds			
Ending balance at 31 December 2014	27,041	66,931	50,431	-	144,403	3	-	144,406
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-
Adjusted beginning balance at 1 January 2015	27,041	66,931	50,431	-	144,403	3	-	144,406
Total income/expense recognized	-	-	75,983	-	75,983	149	-	76,132
Other changes in equity	-	50,431	(50,431)	(34,443)	(34,443)	-	-	(34,443)
Transfers between total equity entries	-	50,431	(50,431)	-	-	-	-	-
Dividend distribution	-	-	-	(34,443)	(34,443)	-	-	(34,443)
Ending balance at 31 December 2015	27,041	117,362	75,983	(34,443)	185,943	152	-	186,095

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 31 and Appendices I and II are an integral part of the consolidated statement of changes in total equity for 2016.

ALLFUNDS BANK GROUP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Thousands of Euros)

	2016	2015 (*)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the year	69,074	75,983
Adjustments to obtain the cash flows from operating activities-		
Depreciation and amortization	2,273	3,693
Other adjustments	27,029	32,196
Profit adjusted	98,376	111,872
Net increase/decrease in operating assets:		
Financial assets held for trading	(195)	(272)
Available-for-sale financial assets	10,039	(14,943)
Loans and receivables	(67,624)	(59,765)
Other operating assets	2,834	(40,821)
	(54,946)	(115,801)
Net increase/decrease in operating liabilities:		
Financial liabilities held for trading	162	54
Financial liabilities at amortised cost	58,230	233,424
Other operating liabilities	(2,097)	35,774
	56,295	269,252
Collection/Payments for income tax	(31,462)	(28,867)
Total cash flow from operating activities	68,263	236,456
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments		
Tangible assets	(3,868)	(2,359)
Intangible assets	(2,316)	(2,416)
	(6,184)	(4,775)
Total Cash flow from investing activities	(6,184)	(4,775)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Investment		
Dividends	(81,640)	(34,443)
Total Cash flow from financing activities	(81,640)	(34,443)
EFFECT EXCHANGE RATE CHANGES	319	72
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	(19,242)	197,310
Cash and cash equivalents at beginning of year	408,312	211,002
Cash and cash equivalents at end of the period	389,070	408,312
MEMORANDUM ITEMS:		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD:		
Cash	18	19
Cash equivalents at central banks	179,361	32,289
Other financial assets	209,691	376,004
TOTAL CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	389,070	408,312

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 31 and Appendices I and II are an integral part of the consolidated statement of cash flows for 2016.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 31). In the event of a discrepancy, the Spanish-language version prevails.

Allfunds Bank Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

1. Description of the Bank, basis of presentation of the consolidated financial statements and other information

a) Description of the Bank

Allfunds Bank, S.A. ("the Bank") was incorporated for an indefinite period of time in Madrid on 14 December 2000. The Bank is a private-law entity subject to the rules and regulations applicable to banks operating in Spain, which has its registered office at calle Estafeta 6- Complejo Plaza de la Fuente, Edificio 3, La Moraleja (Madrid), where the bylaws and other public information on the Bank can be consulted. The Bank is registered in the Bank of Spain's Official Register of financial institutions under code 0011.

The activities that constitute the Bank's object are as follows:

- a. The performance of all kinds of activities, transactions and services of the banking business in general, related thereto or permitted to it under current legislation.
- b. The acquisition, holding, use, administration and disposal of Spanish and foreign marketable securities, shares and equity interests in companies, in accordance with current legislation.
- c. The provision of investment services and any applicable supplementary activities under current legislation.

In addition to the operations carried on directly by it, the Bank is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, the Allfunds Group ("the Group"). Therefore, the Bank is required to prepare in addition to its own financial statements, these consolidated financial statements for the Group.

b) Basis of presentation of the consolidated financial statements

The consolidated financial statements for 2016 were prepared by the directors of the Bank, as the Parent, at the Board meeting on 30 March 2017 in accordance with the regulatory framework applicable to the Group, which is that established in Bank of Spain Circular 4/2004, of 22 December, and subsequent amendments thereto ("Circular 4/2004"), in the Spanish Commercial Code and in other Spanish corporate and commercial law, and other compulsory legislation approved by the Bank of Spain and, accordingly, present fairly the Group's consolidated equity and financial position at 31

December 2016 and the consolidated results of its operations, the changes in the consolidated equity and its consolidated cash flows for the year then ended. These consolidated financial statements, which were prepared from the accounting records of the Bank and those of each of its subsidiaries, include the adjustments and reclassifications required to unify the accounting policies used by the subsidiaries with those used by the Parent. (Bank of Spain Circular 4/2014)

The Group's consolidated financial statements for 2016 have not yet been approved by the shareholders at the Annual General Meeting. However, the Bank's Board of Directors considers that the aforementioned consolidated financial statements will be approved without any changes. The Group's consolidated financial statements for 2015 were approved by the shareholders at the Annual General Meeting of the Bank on 30 June 2016 and filed at the Madrid Mercantile Registry.

The principal accounting policies and measurement bases applied in preparing the Group's consolidated financial statements for 2016 are described in Note 2. All mandatory accounting policies and measurement bases with a material effect on the consolidated financial statements for 2016 were applied in their preparation. No non-obligatory accounting principles were applied.

In 2016 various Bank of Spain Circulars came into force, of which the following are noteworthy:

Bank of Spain Circular 2/2016, of 2 February, to credit institutions, on supervision and capital adequacy, which completes the adaptation of Spanish law to Directive 2013/36/EU and Regulation (EU) 575/2013.

The fundamental aim of this circular is to complete, with respect to credit institutions, the transposition of Directive 2013/36/EU into Spanish law. It also includes one of the options afforded by Regulation (EU) 575/2013 to the competent national authorities, in addition to those exercised by the Bank of Spain in Circular 2/2014. Bank of Spain Circular 2/2016 also develops certain aspects of the transposition of Directive 2011/89/EU of the European Parliament and of the Council, of 16 November 2011, amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial institutions in a financial conglomerate. Bank of Spain Circular 2/2016 also introduces a definition of competent authority, which will be the European Central Bank or the Bank of Spain, depending on the distribution and allocation of competences established in the EU legislation. The entry into force of this circular did not have a material impact on the Group or the information shown in these consolidated financial statements.

Bank of Spain Circular 4/2016, of 27 April, amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions on public and confidential financial reporting rules and formats, and Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register.

The main objective of this circular is to update Bank of Spain Circular 4/2004, principally Annex IX, to adapt it to the latest developments in banking regulations, while maintaining its complete compatibility with the International Financial Reporting Standards (IFRSs) accounting framework. This update was part of the process to improve and update Bank of Spain Circular 4/2004 to adapt it to regulatory developments, incorporating applicable regulatory changes and identified best practices, in a context of the continuous evolution and fine-tuning of credit risk accounting. Information on these changes is detailed in Note 2-e.

In addition, Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register, was amended to adapt its disclosure requirements to the changes made to Bank of Spain Circular 4/2004 by this circular. Bank of Spain Circular 4/2016 also introduced changes required by the new wording of Article 39.4 of the Spanish Commercial Code introduced by Spanish Audit Law 22/2015, of 20 July, whereby all intangible assets now have a finite useful life and, therefore, can be amortised. These changes originated in Royal Decree 878/2015, of 2 October, whereby changes in ownership in purchases and

sales of equity instruments shall be deemed to take place on their settlement date and not on their trade date, which affects their recognition for accounting purposes (these changes did not have a significant effect on the Group).

Lastly, the circular introduces certain changes to institutions' public and confidential financial reporting formats. Section e) of this Note describes how these changes affected the comparative information relating to 2015.

Bank of Spain Circular 7/2016, of 29 November, implementing the specific accounting rules to be observed by banking foundations and amending Bank of Spain Circular 4/2004, of 22 December, to credit institutions on public and confidential financial reporting rules and formats, and Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register.

This circular aims to regulate the regime for separate and consolidated financial statements of banking foundations regulated in Law 26/2013, as well as the regime for the confidential statements that must be submitted to the Bank of Spain. The entry into force of this circular did not have a material impact on the Group or the information shown in these financial statements.

Royal Decree 602/2016, of 2 June

Royal Decree 602/2016, of 2 December, amending the Spanish National Chart of Accounts approved by Royal Decree 1514/2007, of 16 November, was approved in December 2016. Royal Decree 602/2016 is applicable to reporting periods beginning on or after 1 January 2016.

The main amendments introduced by Royal Decree 602/2016 that affect the Group refer to new financial statement footnote disclosures, the most significant of which are as follows:

- a) the amount of the premiums paid under the directors' third-party liability insurance policies;
- b) the employees with a disability equal to or greater than 33%; and
- c) the conclusion, amendment or early extinguishment of any agreement between a business entity and any of its shareholders, directors or a person acting on their behalf, in relation to transactions outside the course of the Group's ordinary business operations or in conditions that were not on an arm's length basis.

All accounting policies and measurement bases with a material effect on the Group's 2016 financial statements were applied in their preparation.

c) Use of estimates

The information in these consolidated financial statements is the responsibility of the Bank's directors. In the Bank's consolidated financial statements for 2016 estimates were made by the senior executives of the Bank, later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

1. The impairment losses on certain assets (see Notes 7, 8, 10 and 11).
2. The useful life of the tangible and intangible assets (see Notes 10 and 11).

3. The assessment of any possible contingent liabilities affecting the Group and the need to recognise provisions therefor (see Note 2-j).
4. Estimates of accrued expenses and deferred income relating to the Bank's activity at each year-end.

Although these estimates were made on the basis of the best information available at 2016 year-end, future events might make it necessary to change these estimates in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of Bank of Spain Circular 4/2004, recognising the effects of any change in estimates in the related consolidated income statement in future years.

d) Basis of consolidation

"Subsidiaries" are defined as entities over which the Bank has the capacity to exercise management control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, where applicable, even if this percentage is lower or zero, as is the case with the agreements with other shareholders of the investee that give the Bank control. For these purposes, an entity is considered to control another when:

- i. it has the power, due to legal or bylaw provisions or agreements, to govern the significant activities of the investee, i.e. those that significantly affect its performance;
- ii. it has the ability to use power over the investee to affect the amount of the investor's returns; and
- iii. it has exposure, or rights, to variable returns from involvement with the investee.

The financial statements of the subsidiaries are fully consolidated with these consolidated financial statements in accordance with the Bank of Spain Circular 4/2004.

The following methods were applied in the consolidation process:

- i. The financial statements of the subsidiaries are aggregated with those of the Bank. Prior to this aggregation, any material unification adjustments that might be necessary to adapt the subsidiaries' accounting policies and measurement bases to those used by the Bank, which are those contained in Bank of Spain Circular 4/2004, were made.
- ii. All material balances and transactions between the consolidated companies, and the material results of intra-Group transactions not realised vis-à-vis third parties, were eliminated on consolidation.
- iii. The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-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.

Changes in the scope of consolidation

On 24 March 2015, Allfunds Bank Brasil Representações Ltda. was incorporated for an indefinite period in Sao Paulo (Brazil). Its company object consists of providing representation services to the Allfunds Bank Group. The company was incorporated with share capital of EUR 204 thousand, divided into 700,000 shares of BRL 1 par value each, of which Allfunds Bank, S.A. subscribed a total of 699,999

shares and Allfunds Bank International, S.A. 1 share, paid in full at 31 December 2015. On 4 May 2015, Allfunds Bank Brasil Representações Ltda. increased capital by EUR 21 thousand through the issue of 72,800 new shares of BRL 1 par value each, which were fully subscribed and paid by Allfunds Bank S.A. This company's financial statements are fully consolidated in these consolidated financial statements and this transaction did not give rise to any goodwill.

No additional changes occurred in the Group's scope of consolidation in 2016.

Appendix I contains salient information on the subsidiaries.

e) Agency agreements

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

f) Comparative information

The Group's financial statements for 2016 are presented in accordance with the presentation models introduced in Bank of Spain Circular 4/2016, of 27 April, amending Bank of Spain Circular 4/2004, for the purpose of adapting the content of credit institutions' public financial information to the financial statement terminology and formats established on a mandatory basis by the European Union for credit institutions.

Solely for comparison purposes the Bank's directors present, in addition to the figures for 2016 for each item in the balance sheet, statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements, the figures for 2015 and, accordingly, they do not constitute the Bank's statutory financial statements for 2015. In order to facilitate comparison, the financial statements and information relating to 2015 were reissued in accordance with the new formats mentioned in the preceding paragraph, and this did not have a significant impact with respect to the format of the financial statements included in the statutory financial statements for the year ended 31 December 2015.

The changes affect mainly the names of certain items in the consolidated financial statements, their grouping in the financial statements, certain subtotals and the general presentation structure, although the changes cannot be considered to be material.

The main changes in the consolidated balance sheet were the transfer of demand deposits with credit institutions amounting to EUR 376,004 thousand from "Loans and Receivables" in the previous consolidated balance sheet as at 31 December 2015 to "Cash, Cash Balances at Central Banks and Other Demand Deposits Held at Credit Institutions" in the consolidated balance sheet as at that same date presented for comparison purposes in these consolidated financial statements for 2016 and the reclassification of term deposits with central banks amounting to EUR 2,923 thousand from "Cash and Balances with Central Banks" in the consolidated balance sheet as at 31 December 2015 presented in the consolidated financial statements for that year to "Loans and Receivables" in the consolidated balance sheet as at that same date that is presented for comparison purposes in these consolidated financial statements for 2016.

The consolidated financial statements for 2015, authorised for issue by the directors on 30 March 2016 and approved by the Annual General Meeting of 30 June 2016, excluding, therefore, the changes introduced by Bank of Spain Circular 4/2016, are summarised below:

Balance sheet (Thousands of Euros):

ASSETS	2015	LIABILITIES AND EQUITY	2015
CASH AND BALANCES WITH CENTRAL BANKS	35,231	FINANCIAL LIABILITIES HELD FOR TRADING	304
FINANCIAL ASSETS HELD FOR TRADING	444	FINANCIAL LIABILITIES AT AMORTISED COST	546,741
AVAILABLE-FOR-SALE FINANCIAL ASSETS	20,200	TAX LIABILITIES	31,610
LOANS AND RECEIVABLES	649,811	OTHER LIABILITIES	159,194
TANGIBLE ASSETS	4,003	TOTAL LIABILITIES	737,849
INTANGIBLE ASSETS	3,939	SHAREHOLDERS' EQUITY:	185,943
TAX ASSETS	25,654	Share capital	27,041
OTHER ASSETS	184,662	Reserves	117,362
		Profit/Loss for the year	75,983
		Less: Dividends and remuneration	(34,443)
		VALUATION ADJUSTMENTS	152
		TOTAL EQUITY	186,095
TOTAL ASSETS	923,944	TOTAL LIABILITIES AND EQUITY	923,944

Income statement (Thousands of Euros):

	Income/(Expenses)
	2015
INTEREST AND SIMILAR INCOME	3,989
INTEREST EXPENSE AND SIMILAR CHARGES	(138)
NET INTEREST INCOME	3,851
INCOME FROM EQUITY INSTRUMENTS	-
FEE AND COMMISSION INCOME	742,732
FEE AND COMMISSION EXPENSE	(586,863)
GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES (net)	139
EXCHANGE DIFFERENCES (net)	72
OTHER OPERATING INCOME	834
OTHER OPERATING EXPENSES	(705)
GROSS INCOME	160,060
ADMINISTRATIVE EXPENSES	(48,116)
DEPRECIATION AND AMORTISATION CHARGE	(3,693)
PROVISIONS (net)	-
IMPAIRMENT LOSSES ON FINANCIAL ASSETS (net)	(640)
PROFIT FROM OPERATIONS	107,611
IMPAIRMENT LOSSES ON OTHER ASSETS (net)	(6)
PROFIT BEFORE TAX	107,605
INCOME TAX	(31,622)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	75,983
PROFIT FROM DISCONTINUED OPERATIONS (net)	-
PROFIT FOR THE YEAR	75,983

Statement of changes in Equity (Thousands of Euros):

	Income/(Expenses)
	2015
A) PROFIT FOR THE YEAR	75,983
B) OTHER RECOGNISED INCOME AND EXPENSE	149
B.1) Items that will not be reclassified to profit or loss	-
B.2) Items that may be reclassified to profit or loss	149
C) TOTAL RECOGNISED INCOME AND EXPENSE (A+B)	76,132

Statement of changes in Equity (Thousands of Euros):

	TOTAL EQUITY						
	SHAREHOLDERS' EQUITY					VALUATION ADJUSTMENTS	TOTAL EQUITY
	Share Capital	Reserves	Profit for the Year	Less: Dividends and Remuneration	Total Shareholders' Equity		
Ending balance at 31 December 2014	27,041	66,931	50,431	-	144,403	3	144,406
Total recognised income and expense	-	-	75,983	-	75,983	149	76,132
Other changes in equity	-	50,431	(50,431)	(34,443)	(34,443)	-	(34,443)
Transfers between equity items	-	50,431	(50,431)	-	-	-	-
Dividends	-	-	-	(34,443)	(34,443)	-	(34,443)
Ending balance at 31 December 2015	27,041	117,362	75,983	(34,443)	185,943	152	186,095

Statement of Cash Flows (Thousands of Euros):

	2015
CASH FLOWS FROM OPERATING ACTIVITIES (1)	237,734
Profit for the year	75,983
Adjustments made to obtain the cash flows from operating activities:	35,899
Depreciation and amortisation charge	3,693
Other adjustments	32,196
Net increase/(decrease) in operating assets:	(92,860)
Financial assets held for trading	(272)
Available-for-sale financial assets	(14,943)
Loans and receivables	(58,487)
Other operating assets	(19,158)
Net increase/(decrease) in operating liabilities:	247,589
Financial liabilities held for trading	54
Financial liabilities at amortised cost	233,424
Other operating liabilities	14,111
Income tax recovered/paid	(28,867)
CASH FLOWS FROM INVESTING ACTIVITIES (2)	(4,755)
Payments:	(4,755)
Tangible assets	(2,359)
Intangible assets	(2,416)
CASH FLOWS FROM FINANCING ACTIVITIES (3)	(34,443)
Payments:	(34,443)
Dividends	(34,443)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (4)	52
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (1+2+3+4)	198,588
Cash and cash equivalents at beginning of year	212,647
Cash and cash equivalents at end of year	411,235
MEMORANDUM ITEMS	
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR	
Cash	19
Cash equivalents at central banks	35,212
Other financial assets	376,004
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	411,235

g) Environmental impact

In view of the business activities carried on by the Group, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its consolidated equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these Notes to the consolidated financial statements.

h) Capital and capital management

In this regard, Bank of Spain Circular 2/2016, to credit institutions was published on 2 February 2016, on supervision and capital adequacy, which completes the adaptation of Spanish law to Directive 2013/36/EU and Regulation (EU) 575/2013, which is applicable to the Bank (see Note 1-b).

Regulation (EU) 575/2013 lays down uniform rules that must be complied with by entities in relation to: 1) regulatory own funds requirements relating to elements of credit risk, market risk, operational risk and settlement risk; 2) requirements limiting large exposures; 3) liquidity risk coverage relating to entirely quantifiable, uniform and standardised elements of liquidity risk, after the Commission delegated act has entered into force; 4) the setting of the leverage ratio; and 5) public disclosure requirements.

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

Institutions must at all times meet the following capital adequacy requirements:

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

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

- Hold a capital conservation buffer, which was established as Common Equity Tier 1 capital equal to 0.625% of RWAs for 2016, and which will increase by an additional 0.625% each year until it reaches the required level of 2.5% of RWAs in 2019. In 2015, pursuant to current legislation, the Bank was not required to hold a capital conservation buffer.
- Hold a countercyclical buffer of Common Equity Tier 1 capital that can be up to 2.5% of RWAs. From 2016 onwards, the level that this buffer must reach will be set by the national competent authorities, using macroeconomic variables, when a period of excess credit growth that might be leading to the build-up of system-wide risk is observed. In this connection, at the end of 2016 the Bank of Spain announced that the countercyclical buffer for Spanish financial institutions would be maintained at 0% of credit risk exposure in Spain in the fourth quarter of 2016. The Bank has not been designated a systemic institution, and a capital buffer has not been established for it for 2017.

The Group's management of its capital, as far as conceptual definitions are concerned, is in keeping with Regulation (EU) 575/2013. With a view to ensuring that the aforementioned objectives are met, the Bank performs an integrated management of these risks, in accordance with the policies and processes indicated above.

The main figures relating to the capital ratios applicable to the Group pursuant to Regulation (EU) 575/2013, at 31 December 2016 and 2015, are as follows:

	Thousands of Euros	
	2016	2015
Common Equity Tier 1 (I)	149,943	144,724
Additional Tier 1 capital (II)	-	-
Total Tier 1 capital (III = I + II)	149,943	144,724
Tier 2 capital (IV)	12	51
Total eligible capital (V= III + IV)	149,955	144,775
Exposure for capital adequacy purposes	661,070	593,496

Common Equity Tier 1 includes basically the Group's share capital and reserves net of deductions.

Tier 2 capital includes mainly the general allowance specified in Article 62 of Regulation (EU) 575/2013.

At 31 December 2016 and 2015, the Bank's eligible capital exceeded the minimum required under the regulations in force.

i) Deposit Guarantee Fund

i. Deposit Guarantee Fund

The Bank participates in the Deposit Guarantee Fund.

In 2016 and 2015, the accompanying income statements did not include any expense in this connection since there was no obligation to contribute in this respect, in accordance with Article 4 of Royal Decree 2606/1996, of 20 December, on deposit guarantee funds of credit institutions.

ii. National Resolution Fund

2015 saw the publication of Royal Decree 1012/2015, of 6 November, implementing Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment services firms, and amending Royal Decree 2606/1996, of 20 December, on deposit guarantee funds for credit institutions. Law 11/2015 regulates the creation of the National Resolution Fund, the financial resources of which must, prior to 31 December 2024, reach 1% of the amount of the deposits guaranteed, through contributions from credit institutions and investment services firms in Spain. The detail of the method for calculating the contributions to this Fund is regulated by Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 and the calculation is performed by the Fund for Orderly Bank Restructuring ("FROB") using information provided by the Entity.

The expense incurred on the contribution made to the National Resolution Fund amounted to EUR 54 thousand in 2015, and is recognised under "Other Operating Expenses" in the accompanying income statement (see Note 26).

iii. Single Resolution Fund

In March 2014, the European Parliament and the Council reached a political agreement for the creation of the second pillar of Banking Union, the Single Resolution Mechanism ("SRM"). The SRM's main

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

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

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

The SRB calculated the contributions to be paid by each institution in accordance with the information sent to each institution in a form on 11 December 2015. The amount was the result of applying the calculation methodology specified in Commission Delegated Regulation (EU) 2015/63, of 21 October 2014, based on the uniform conditions of application indicated in Council Implementing Regulation (EU) 2015/81, of 19 December 2014.

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

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

With respect to the contributions made in 2015 to the National Resolution Fund and subsequently transferred to the SRF, the governing body resolved to deduct one-eighth of that contribution in 2016.

In 2016 the leverage ratio started to be applied as one of the indicators to determine the risk profile of financial institutions, while the "Importance of an institution to the stability of the financial system or economy" pillar ceased to be applied.

The expense incurred by the Group in relation to the contribution made to the SRF in 2016 totalled EUR 125 thousand and is recognised under "Other Operating Expenses" in the accompanying statement of profit or loss (see Note 26).

j) Customer care service annual report

As required by Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Care Departments and Services and the Customer Ombudsmen of Financial Institutions, the Annual Report was presented to the Board meeting of the Bank held on 30 March 2017. The Report indicates that in

2016, the Milan branch received five complaints, all of which related to delays in the transfer of units in collective investment undertakings in which the Bank does not have any direct responsibility since various agents participate in the process and the legislation does not include a set deadline for the transfers to take place. Accordingly, at 31 December 2016, there were no unresolved matters.

k) Events after the reporting period

On 6 March 2017, the Bank's shareholders entered into a share purchase and sale agreement with Aduhala ITG, S.L.U. (which is indirectly owned, in turn, by funds managed or advised by Hellman & Friedman and the sovereign wealth fund GIC). At the date of formal preparation of these financial statements, the completion of this transaction is subject to the approval of the various regulatory bodies.

From 1 January 2017 to the date on which these consolidated financial statements were authorised for issue, no events with a material effect on the financial statements other than the one described above took place.

2. Accounting policies and measurement bases

The accounting policies and measurement bases applied in preparing these consolidated financial statements were as follows:

a) Definitions and classification of financial instruments

i. Definitions

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

An "equity instrument" is any agreement that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A "financial derivative" is a financial instrument whose value changes in response to the change in a specified variable, sometimes called the underlying (such as an interest rate, financial instrument price, commodity price, foreign exchange rate, credit rating or the related index), whose initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as "Non-Current Assets and Disposal Groups Classified as Held for Sale", or relate, where appropriate, to "Cash, cash balances at Central Banks and other demand deposits", "Fair value changes of the hedge items in portfolio hedges of interest rate risk", "Hedging derivatives" or "Investments in subsidiaries, Joint Ventures and Associates", which are reported separately.

Financial assets are generally included for measurement purposes in one of the following categories:

- Financial assets held for trading: this category includes the financial assets acquired for the purpose of generating a profit in the near term from fluctuations in their prices and financial derivatives that

do not meet the definition of a financial guarantee contract and have not been designated as hedging instruments.

- Financial assets designated at fair value through profit or loss: this category includes hybrid financial assets that are not financial assets held for trading which are measured entirely at fair value and financial assets not held for trading that are included in this category in order to obtain more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial assets or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Bank's directors. Financial assets may only be included in this category on the date they are acquired or originated.
- Available-for-sale financial assets: this category includes debt instruments not classified as "Loans and receivables", "Investments held for trading" or "Designated at fair value through profit or loss" (category which encompasses financial assets held for trading or designated at fair value through profit or loss); it also includes Equity instruments issued by entities other than subsidiaries, associates and jointly controlled entities, provided that such instruments have not been classified as "Financial assets designated at fair value through profit or loss".
- Loans and receivables: this category includes financing to third parties arising from the Group's typical lending activities, whatever the nature of the borrower and the form of the financing granted, and the unquoted debt securities.

In general terms, the Group intends to hold the loans and credits granted and classified as loans and receivables until their final maturity and therefore, they are presented in the consolidated balance sheet at amortised cost (which includes any corrections that must be made to show estimated losses in recovery).

- Held-to-maturity investments: this category includes debt securities with fixed maturity and with fixed or determinable payments, for which the Group has both the intention and proven ability to hold to maturity.

iii. Classification of financial assets for presentation purposes

In addition to the categories included in section "ii" above, financial assets are classified, by type of instrument, into the following items in the balance sheet:

- Cash, cash balances in Central Banks and other demand deposits: cash balances and balances receivable on demand with central banks and other credit institutions.
- Loans and advances: includes the debit balances of all credit and loans granted by the Group, other than those represented by securities, as well as finance lease receivables and other debit balances of a financial nature in favour of the Bank, such as cheques drawn on credit institutions, balances receivable from clearing houses and settlement agencies for transactions on the stock exchange and organised markets, bonds given in cash, capital calls, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originating in banking transactions and services, such as the collection of rentals and similar items, where applicable. They are classified, depending on the institutional sector to which the borrower belongs, under:

- Central banks: credit of any nature, including deposits made and money market operations in the name of the Bank of Spain or other central banks.
- Loans and advances to credit institutions: credit of any nature, including credit received and money market operations in the name of credit institutions.
- Loans and advances to customers: includes the remaining credit, including money market operations through central counterparties.
- Debt instruments: bonds and other securities that create a debt for their issuer, that generate an implicit or explicit interest return at a contractually agreed rate, and that are in the form of certificates or book entries, irrespective of the issuer.
- Equity Instruments: financial instruments issued by other entities, such as shares and non-voting equity units, if any, which have the nature of equity instruments for the issuer, unless they are investments in subsidiaries, jointly controlled entities or associates. Investment fund units are included in this item, if any.
- Derivatives: includes the fair value in favour of the Group of derivatives which do not form part of hedge accounting.

iv. Classification of financial liabilities for measurement purposes

In the consolidated balance sheet, financial liabilities are classified into the various categories used for management and measurement purposes. Financial liabilities are classified for measurement purposes into one of the following categories:

- Financial liabilities held for trading: this category includes the financial liabilities issued for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives not considered to qualify for hedge accounting and financial liabilities arising from the outright sale of financial assets purchased under resale agreements or borrowed ("short positions").
- Financial liabilities designated at fair value through profit or loss: financial liabilities are included in this category when more relevant information is obtained, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial liabilities or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Bank's directors. Liabilities may only be included in this category on the date when they are incurred or originated.
- Financial liabilities at amortised cost: financial liabilities not included in the above category which arise from the ordinary borrowing activities carried on by financial institutions, irrespective of their instrumentation and maturity.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by nature into the following items in the consolidated balance sheet for presentation purposes, where applicable:

- Deposits: includes all repayable balances received in cash by the Group, including those having the substance of subordinated liabilities (amount of financing received which, for the purposes of payment priority, ranks behind ordinary debt), except for debt securities. This item also includes cash bonds and cash consignments received the amount of which may be invested without restriction. Deposits are classified on the basis of the creditor's institutional sector into:
 - Central Banks: deposits of any nature, including credit received and money market operations received from the Bank of Spain or other central banks.
 - Credit institutions: deposits of any nature, including credit received and money market operations in the name of credit institutions.
 - Customers: includes the remaining deposits, including money market operations through central counterparties.
- Derivatives: includes the fair value of the Group's liability in respect of derivatives which do not form part of hedge accounting.
- Other financial liabilities: includes the amount of payment obligations having the substance of financial liabilities not included under any other item.

b) Measurement of financial assets and liabilities and recognition of fair value changes

In general, financial instruments are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be their acquisition cost. Financial instruments not measured at fair value through profit or loss are adjusted by the transaction costs and any fees and commissions which, under the applicable rules, should form part of the calculation of the effective interest rate on the transactions. Investments in Group companies are initially measured at acquisition cost. Financial assets and liabilities are subsequently measured at each year-end as follows:

i. Measurement of financial assets

Financial assets are measured at fair value, without deducting any transaction costs that may be incurred on their sale or other form of disposal, except for loans and receivables, held-to-maturity investments, Investments in subsidiaries, joint ventures and associates and equity instruments, whose fair value cannot be determined in a sufficiently objective manner and financial derivatives, where applicable, that have those equity instruments as their underlying and are settled by delivery of those instruments.

The "fair value" of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable. 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 active market ("quoted price" or "market price").

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

Financial assets held for trading

All derivatives classified as held for trading are recognised in the consolidated balance sheet at fair value from the trade date. If the fair value is positive, they are recognised as an asset and if the fair value is negative, they are recognised as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognised in "Gains or Losses on financial assets and liabilities held for trading, net" in the income statement. Specifically, the fair value of any financial derivatives traded in organised markets included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques accepted in the financial markets: "net present value" (NPV), option pricing models, etc.

Loans and receivables

"Loans and receivables" are measured subsequent to acquisition at amortised cost using the effective interest method. Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interests repayments and the cumulative amortisation (taken to the income statement) of the difference between the initial cost and the maturity amount. In the case of financial assets, amortised cost furthermore includes any reductions for impairment or uncollectibility. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognised. The interest earned on these assets is recognised under "Interest income" in the consolidated income statement. Any impairment losses that might arise are recognised under "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss" in the consolidated income statement using the criteria indicated in Note 2-e. The assets denominated in foreign currencies are measured using the criteria included in Note 2-k. Any impairment losses on these assets are estimated and recognised in accordance with the criteria indicated in Note 2-e.

The "effective interest rate" is the discount rate that exactly matches the initial amount of a financial instrument to the present value of its estimated cash flows during its life, based on the contractual terms, 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, by the fees and the transaction costs that, because of their nature, should be included in the calculation of the interest rate. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

Available-for-sale financial assets

The instruments classified as "Available-for-sale financial assets" are initially recognised at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognised in the consolidated income statement by the effective interest method, except for those relating to financial assets with no fixed maturity, which are recognised in the consolidated income statement when the assets become impaired or are derecognised. Subsequent

to acquisition, financial assets included in this category are measured at fair value at each reporting date.

Changes in the fair value of available-for-sale financial assets relating to accrued interest or dividends are recognised under "Interest income" (calculated using the effective interest method) and "Dividend income" in the consolidated income statement, respectively. Any impairment losses on these instruments are recognised (see Note 2-e). Exchange differences on financial assets denominated in currencies other than the euro are recognised (see Note 2-k).

Other changes in the fair value of available-for-sale financial assets from the acquisition date are recognised in equity under "Equity – Accumulated other comprehensive income" until the financial asset is derecognised, or impaired, where applicable, when the consolidated balance recorded under this item is recognised under "Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net" or "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss" in the consolidated income statement, respectively. However, financial instruments whose fair value cannot be determined in a sufficiently objective manner are measured in these financial statements at cost, net of any impairment loss, calculated as detailed in Note 2-e.

Equity instruments of other entities whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those instruments as their underlying and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, by any related impairment losses.

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under "Financial liabilities held for trading", which are measured at fair value, using the same measurement and recognition methods as those described in the preceding section for derivatives with a favourable balance for the Group.

iii. Valuation techniques

The fair value recognised by the Bank for the financial instruments included under "Financial assets held for trading" and "Financial liabilities held for trading" in the consolidated balance sheet as at 31 December 2016 is based on "internal valuation models" using data drawn from the market. The main technique used in the "internal valuation models" is the "present value" method.

The Bank's directors consider that the result of applying these valuation techniques on the financial assets and liabilities recognised in the consolidated balance sheet and the income arising from these financial instruments is reasonable and reflect their market value.

iv. Recognition of fair value changes

Changes in the fair value of financial instruments classified as financial assets held for trading are recognised under "Gains or losses on financial assets and liabilities held for trading, net" in the consolidated income statement.

c) Derecognition of financial assets and liabilities

Financial assets are generally only derecognised when the cash flows they generate have been extinguished or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are acquired by the Bank (with the intention either to cancel them or to resell them).

In 2016 and 2015 the Group did not transfer any financial instrument which was not derecognised.

d) Offsetting of financial instruments

Financial asset and liability balances are offset, i.e. reported in the consolidated balance sheet at their net amount, only if the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Group did not hold any financial assets or liabilities in the accompanying consolidated balance sheets at 31 December 2016 and 2015 that had been offset or were eligible for offset.

e) Impairment of financial assets

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

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

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the consolidated income statement for the year in which the impairment becomes evident. The reversal, if any, of previously recognised impairment losses is recognised in the consolidated income statement for the year in which the impairment is reversed or reduced, except in the case of equity instruments classified as available for sale, if any, measured at fair value or cost, the reversal of previously recognised impairment losses on which is recognised in the Group's equity under "Accumulated other comprehensive income" or is not recognised until it is realised through the disposal of the aforementioned equity instrument, respectively.

Impairment losses on debt instruments classified as loans and receivables, and available-for-sale financial assets are estimated and recognised as set forth in Annex IX of Bank of Spain Circular 4/2004. In order to estimate specific allowances for doubtful exposures and general allowances for standard exposures, the Group uses the alternative solutions (allowance percentages that depend on the risk characteristics of the various transactions) included in Annex IX, which were calculated by the Bank of Spain based on industry information and its accumulated experience and updated in 2016 following the publication of Bank of Spain Circular 4/2016.

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

f) Tangible assets

The Group's tangible assets relate in full to property, plant and equipment for own use and are presented at acquisition cost, less:

- The related accumulated depreciation, and
- Any estimated impairment losses, calculated by comparing the carrying amount of each asset with its recoverable amount, which is defined as the higher of value in use and fair value less costs to sell.

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

The period tangible asset depreciation charge is recognised in the consolidated income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Furniture and fixtures	10
Computer hardware	25

The consolidated entities assess at the reporting date whether there is any internal or external indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced with a charge to the consolidated income statement to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated).

Similarly, if there is an indication of a recovery in the value of a tangible asset on which an impairment loss has been recognised, the consolidated entities recognise the reversal of the impairment loss recognised in prior periods with a credit to the consolidated income statement and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

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

Upkeep and maintenance expenses are recognised as an expense on the consolidated income statement in the period in which they are incurred.

g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Expenses resulting from operating leases are charged to the consolidated income statement in the year in which they are incurred.

A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

At 31 December 2016 and 2015, the Bank and the remaining subsidiaries did not own any buildings for their own use, but rather carried on their activity in properties leased under operating leases. The balance of the lease expenses accrued in 2016 amounted to EUR 4,148 thousand (2015: EUR 2,156 thousand), and this amount was recognised under "Administrative Expenses – Other Administrative Expenses" in the consolidated income statement for that year (see Note 25.2).

h) Intangible assets

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

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

Intangible assets with finite useful lives are amortised over those useful lives using methods similar to those used to depreciate tangible assets.

The main intangible assets recognised by the Group relate primarily to computer software, which, in previous years, was estimated to have a useful life of three years, which was changed to ten years in 2016, since this is the useful life indicated by the accounting legislation for intangible assets whose estimated life the Group cannot estimate reliably. This change was applied prospectively.

The Group recognises any impairment loss on the carrying amount of these assets with a charge to "Impairment or reversal of impairment on non-financial assets" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for tangible assets (see Note 2-f).

i) Other assets and other liabilities

"Other Assets" in the consolidated balance sheet includes the amount of assets not recorded in other items, which relate basically to the accrued income from the Group's activity, excluding accrued interest, which is recognised in the same item as the financial instruments giving rise to it.

"Other Liabilities" includes the payment obligations having the substance of financial liabilities not included in any other consolidated balance sheet item and mainly the accrual accounts arising from transfers of the fees and commissions associated with the Group's main activity.

j) Provisions and contingent liabilities

Provisions are present obligations at the consolidated balance sheet date arising from past events which could give rise to a loss for the Group, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing, and the Group expects that an outflow of resources embodying economic benefits will be required to settle such obligations.

Contingent liabilities 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 future events not wholly within the control of the Group. They include the Group's present obligations when it is considered possible but not probable that an outflow of resources embodying economic benefits will be required to settle them and their amount cannot be quantified in a sufficiently reliable manner.

The consolidated financial statements include, where applicable, all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. In accordance with current standards, contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed in the Notes.

In this respect, on 3 March 2011, Fairfield Sentry Limited and Fairfield Sigma Limited (the "Funds"), both in liquidation and affected by the so-called Madoff case, filed a claim at the United States Bankruptcy Court for the Southern District of New York against a distributor company outside the Bank and against Allfunds Bank, S.A. ("the Bank"), as a result of the reimbursements made by the Bank to the participants in the above Funds prior to December 2008, in accordance with the instructions of the abovementioned distributor company because, in the opinion of the liquidators of the Funds, among other reasons, incorrect payments had been made and unjust enrichment had resulted from such reimbursements in the amount of USD 3,505,471.33 (approximately EUR 3,326 thousand).

At the date of authorisation for issue of these consolidated financial statements, an application had been filed for the dismissal of the claim on which a decision has not yet been handed down by the US Bankruptcy Court for the Southern District of New York, it is our opinion that, ultimately, the Bank should not have to bear any adverse consequences of the proceedings since it acted merely as an intermediary and never profited from any reimbursement made. Accordingly, no provision was recognised in this connection at the end of the 2015 reporting period in these consolidated financial statements.

At 2016 and 2015 year-end, there were no additional legal proceedings outstanding or claims against the Group.

k) Foreign currency transactions

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

The detail, by currency and item, of the main balances in the consolidated balance sheet denominated in foreign currency at 31 December 2016 and 2015 is as follows:

Nature of Foreign Currency Balances	Equivalent Value in Thousands of Euros			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Balances in US dollars:				
Cash, and cash balances with Central Banks and other demand deposits	78,767	-	1,463	-
Loans and receivables	6,971	-	96,318	-
Other assets	27,048	-	27,953	-
Financial liabilities at amortised cost	-	132,699	-	98,125
Other liabilities	-	23,665	-	24,788
	112,786	156,364	125,734	122,913
Balances in pounds sterling:				
Cash, and cash balances with Central Banks and other demand deposits	20,917	-	38,886	-
Loans and receivables	3,408	-	1,323	-
Tangible assets	239	-	1,388	-
Intangible assets	3	-	1	-
Other assets	6,462	-	5,622	-
Financial liabilities at amortised cost	-	21,693	-	34,248
Other liabilities	-	6,804	-	6,375
	31,029	28,497	47,220	40,623
Balances in other currencies:				
Cash and balances with Central Banks and other demand deposits	19,354	-	27,849	-
Loans and receivables	405	-	371	-
Tangible assets	829	-	738	-
Tax assets	-	-	10	-
Other assets	1,797	-	1,103	-
Financial liabilities at amortised cost	-	10,696	-	20,607
Tax liabilities	-	-	-	166
Other liabilities	-	1,414	-	1,225
	22,385	12,110	30,071	21,998
Total foreign currency balances	166,200	196,971	203,025	185,534

In general, exchange differences arising on the translation of foreign currency balances to the functional currency applying the exchange rate prevailing at year-end are recognised, since substantially all of them arise from monetary items, at their net amount under "Exchange differences (net)" in the consolidated income statement, except for exchange differences arising on any financial instruments at fair value through profit or loss, which are recognised in the consolidated income statement without distinguishing them from other changes in the fair value of these instruments.

1) Recognition of income and expenses

The most significant criteria used by the Group to recognise its income and expenses are summarised as follows:

i. Interest income, interest expenses and similar items

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

ii. Commissions, fees and similar items

Fee and commission income and expenses are recognised in the consolidated income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to financial assets and liabilities measured at fair value through profit or loss are recognised when collected.
- Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services, such as the fees from the marketing of units in collective investment undertakings (CIUs), which are calculated as the result of applying the agreed-upon percentage to the daily volume of such units held for the account of the Group's customers.
- Those relating to the provision of a service in a single act, which are recognised when the single act is carried out.

iii. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

iv. Deferred collections and payments

These are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates, when the effect of discounting is material.

m) Post-employment benefits

Under the collective agreements currently in force and other arrangements, the Bank has undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death.

The Group's post-employment obligations to its employees are deemed to be "defined contribution plans" when the Group makes pre-determined contributions to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. At 31 December 2016 and 2015 the Group did not have any obligations which should be considered to be defined benefit obligations in accordance with applicable legislation.

The contributions made by the Group each year under its defined contribution obligations are recognised under "Administrative Expenses - Staff Costs" in the consolidated income statement (see Note 25.1). The amounts not yet contributed at each year-end are recognised, at their present value, under "Financial Liabilities at Amortised Cost - Other Financial Liabilities" (see Note 14.3).

n) Termination benefits

Under current legislation, the consolidated entities are required to pay termination benefits to employees terminated without just cause. At 31 December 2016 and 2015, there were no redundancy plans making it necessary to record a provision in this connection.

o) Income tax

The current Income tax expense is calculated as the tax payable on the taxable profit, adjusted by the amount of the period changes in the assets and liabilities arising from temporary differences and of any tax credit or tax loss carryforwards.

Deferred tax assets and liabilities include temporary differences, which are identified as the amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases that are expected to reverse in the future, and tax loss and tax credit carryforwards, if any. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

"Tax Assets" in the consolidated balance sheet includes, if any, the amount of all tax assets, distinguishing between: "Tax Current Assets" (amounts of tax to be recovered within the next twelve months) and, where applicable, "Tax Deferred Assets" (amounts of tax to be recovered in future years, including those arising from any tax loss and tax credit carryforwards).

"Tax Liabilities" in the consolidated balance sheet includes, if any, the amount of all tax liabilities (except provisions for taxes), which are broken down into "Tax Current Liabilities" –the amount payable in respect of the Income tax on the taxable profit for the year and other taxes in the next twelve months– and "Tax Deferred Liabilities" –the amount of income tax payable in future years that could exist.

Deferred tax liabilities are recognised for all taxable temporary differences, except those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit and is not a business combination.

Deferred tax assets are only recognised for temporary differences to the extent that it is considered probable that the consolidated entities will have sufficient future taxable profits against which the deferred tax assets can be utilised, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards that could exist) are only recognised to the extent that it is probable that the consolidated entities will have future taxable profits against which they can be utilised.

The deferred tax assets recognised are reassessed at each reporting date in order to ascertain whether they still exist, and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits.

p) Consolidated statement of cash flows

The following terms are used in the consolidated statement of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.

- Investing activities: the acquisition and 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 consolidated equity and liabilities that are not operating activities.

For the purposes of preparing the statement of cash flows, "cash and cash equivalents" were considered to be under "Cash, cash balances at Central Banks and other demand deposits" in the balance sheet.

q) Consolidated statement of changes in equity

The consolidated statement of changes in equity presented in these consolidated financial statements shows the changes in consolidated equity in 2016. This information is in turn presented in two statements: the consolidated statement of recognised income and expense and the consolidated statement of changes in total equity. The main characteristics of the information contained in the two parts of the statement are explained below:

Consolidated statement of recognised income and expense

This part of the consolidated statement of changes in equity presents the income and expenses generated by the Group as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the consolidated income statement for the year and the other income and expenses. A distinction is made among the latter, in turn, between items that may be reclassified to profit or loss, pursuant to applicable legislation, and those that may not.

Accordingly, this statement presents:

- a. Consolidated profit or loss.
- b. The net amount of the income and expenses recognised in equity under accumulated other comprehensive income that will not be reclassified to profit or loss in the future.
- c. The net amount of the income and expenses recognised in the consolidated equity that may be reclassified to profit or loss in the future.
- d. The effect of the income tax incurred in respect of the items indicated in b) and c) above.
- e. Total recognised consolidated income and expense, calculated as the sum of a) to d) above.

Consolidated statement of changes in total equity

This part of the consolidated statement of changes in equity includes all the changes in consolidated equity, if any, including those due to changes in accounting policies and from the correction of errors. Accordingly, this consolidated statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the consolidated equity items, and the changes made are grouped together on the basis of their nature into the following items:

- Adjustments due to changes in accounting policies and adjustments due to errors: include the changes in consolidated equity arising as a result of the retrospective restatement of the balances

in the consolidated financial statements due to changes in accounting policies or to the correction of errors, if any.

- Total income/expense recognized: includes, in aggregate form, the total of the aforementioned items recognised in the consolidated statement of recognised income and expense.
- Other changes in equity: includes the remaining items recognised in consolidated equity, including, inter alia, increases and decreases in the shareholders' funds, distribution of consolidated profit, transactions involving the Bank's own equity instruments, the Bank's equity-instrument-based payments, transfers between consolidated equity entries and any other increases or decreases in consolidated equity, if any.

3. Allfunds Bank Group

a) Allfunds Bank, S.A.

Allfunds Bank, S.A. is the Parent of the Allfunds Bank Group. At 31 December 2016, the Bank's assets and equity represented over 90% of all the Group's consolidated assets and equity. The Bank's net profit and its separate profit for 2016 represented over 90% of the consolidated net profit attributable to the Parent in 2016, excluding adjustments or eliminations on consolidation.

To perform its business activities, the Bank has one office in Spain and three branches abroad (Milan, London and Singapore).

The Bank's condensed 2016 and 2015 balance sheets, income statements, statements of recognised income and expense, statements of changes in equity and statements of cash flows are as follows:

ALLFUNDS BANK, S.A.

CONDENSED BALANCE SHEETS AS OF 31 DECEMBER 2016 AND 2015

(Thousands of Euros)

ASSETS	2016	2015	LIABILITIES AND EQUITY	2016	2015
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS	349,361	356,614	LIABILITIES:		
FINANCIAL ASSETS HELD FOR TRADING	657	448	FINANCIAL LIABILITIES HELD FOR TRADING	470	316
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS	10,211	20,200	FINANCIAL LIABILITIES AT AMORTISED COST	571,322	515,673
LOANS AND RECEIVABLES	322,011	273,594	HEDGING DERIVATIVES	-	-
HELD-TO-MATURITY INVESTMENTS	-	-	FAIR VALUE CHANGES OF HEDGED ITEMS	-	-
HEDGING DERIVATIVES	-	-	IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-
FAIR VALUE CHANGES OF HEDGED ITEMS	-	-	PROVISIONS	-	-
IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-	TAX LIABILITIES	1,299	5,729
INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	16,335	16,335	OTHER LIABILITIES	128,404	131,545
TANGIBLE ASSETS	5,352	3,485	LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	-	-
INTANGIBLE ASSETS	5,054	3,918	TOTAL LIABILITIES	701,495	653,263
TAX ASSETS	505	3	EQUITY:		
OTHER ASSETS	150,214	154,539	SHAREHOLDERS' FUNDS	158,186	175,852
			Paid up capital	27,041	27,041
			Retained earnings	114,287	114,287
			Profit or loss	63,975	68,967
			Interim dividends	(47,117)	(34,443)
			ACCUMULATED OTHER COMPREHENSIVE INCOME	19	21
			TOTAL EQUITY	158,205	175,873
TOTAL ASSETS	859,700	829,136	TOTAL LIABILITIES AND EQUITY	859,700	829,136
Memorandum items:					
Contingent liabilities	-	-			
Contingent commitments	50,071	48,091			

ALLFUNDS BANK, S.A.

CONDENSED INCOME STATEMENTS FOR THE YEARS ENDED
31 DECEMBER 2016 AND 2015

(Thousands of Euros)

	Income/(Expenses)	
	2016	2015
INTEREST INCOME	1,252	3,956
INTEREST EXPENSES	(343)	(301)
NET INTEREST INCOME	909	3,655
DIVIDEND INCOME	-	-
FEE AND COMMISSION INCOME	611,060	628,086
FEE AND COMMISSION EXPENSES	(472,053)	(487,231)
GAINS/(LOSSES) ON THE RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	-	-
GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING, NET	187	132
GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	-	-
GAINS/(LOSSES) FROM HEDGE ACCOUNTING, NET	-	-
EXCHANGE DIFFERENCES, NET	335	217
OTHER OPERATING INCOME	3,297	2,353
OTHER OPERATING EXPENSES	(500)	(609)
GROSS INCOME	143,235	146,603
ADMINISTRATION COSTS	(50,268)	(42,175)
DEPRECIATION	(2,046)	(3,546)
PROVISIONS OR REVERSAL PROVISIONS	-	-
IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	81	(640)
NET OPERATING INCOME	91,002	100,242
IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	-	-
IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON NON-FINANCIAL ASSETS	(138)	(6)
GAINS/(LOSSES) ON DERECOGNISED OF NON-FINANCIAL ASSETS AND SUBSIDIARIES, NET 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	-	-
OPERATING PROFIT BEFORE TAX	90,864	100,236
TAX EXPENSE OR INCOME RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS	(26,889)	(31,269)
PROFIT FROM CONTINUING OPERATIONS	63,975	68,967
PROFIT FROM DISCONTINUED OPERATIONS (net)	-	-
PROFIT	63,975	68,967

ALLFUNDS BANK, S.A.

STATEMENTS OF CHANGES IN EQUITY

A) CONDENSED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

(Thousands of Euros)

	2016	2015
PROFIT RECOGNISED IN INCOME STATEMENT	63,975	68,967
OTHER RECOGNISED INCOME (EXPENSES)	(2)	21
Items not subject to reclassification to income statement	-	-
Items subject to reclassification to income statement	(2)	21
TOTAL INCOME AND EXPENSE FOR THE YEAR	63,973	68,988

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

(Thousands of Euros)

	TOTAL EQUITY						
	SHAREHOLDERS' EQUITY					Accumulated other comprehensive income	Total Equity
	Paid up Capital	Retained earnings	Profit for the Year	Less: Interim Dividends	Total Shareholders' Equity		
Ending balance at 31 December 2015	27,041	114,287	68,967	(34,443)	175,852	21	175,873
Total income / expense recognised	-	-	63,975	-	63,975	(2)	63,973
Other changes in equity	-	-	(68,967)	(12,674)	(81,641)	-	(81,641)
Ending balance at 31 December 2016	27,041	114,287	63,975	(47,117)	158,186	19	158,205

	TOTAL EQUITY						
	SHAREHOLDERS' EQUITY					Accumulated other comprehensive income	Total Equity
	Paid up Capital	Retained earnings	Profit for the Year	Less: Interim Dividends	Total Shareholders' Equity		
Ending balance at 31 December 2014	27,041	67,923	46,364	-	141,328	-	141,328
Total income / expense recognised	-	-	68,967	-	68,967	21	68,988
Other changes in equity	-	46,364	(46,364)	(34,443)	(34,443)	-	(34,443)
Ending balance at 31 December 2015	27,041	114,287	68,967	(34,443)	175,852	21	175,873

ALLFUNDS BANK, S.A.
CONDENSED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED
31 DECEMBER 2016 AND 2015

(Thousands of Euros)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the year	63,975	68,967
Adjustments made to obtain the cash flows from operating activities	28,657	35,244
Profit adjusted	92,632	104,211
Net increase/decrease in operating assets	34,735	108,130
Net increase/decrease in operating liabilities	49,646	229,153
Collection/Payments for income tax	(28,303)	(28,659)
Total Cash Flows from operating activities	79,240	196,575
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments	(5,187)	(4,719)
Total Cash Flow from investing activities	(5,187)	(4,719)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend payments	(81,641)	(34,443)
Total Cash Flow from financing activities	(81,641)	(34,443)
EFFECT EXCHANGE RATE CHANGES	335	217
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	(7,253)	157,630
Cash and cash equivalents at beginning of year	356,614	198,984
Cash and cash equivalents at end of the period	349,361	356,614
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD:		
Cash	15	16
Cash equivalents at central banks	158,128	-
Other financial assets	191,218	356,598
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	349,361	356,614

4. Distribution of the Bank's profit

The distribution of the Bank's net profit for 2016 that the Board of Directors will propose for approval by shareholders at the Annual General Meeting and the distribution of the net profit for 2015 approved by the shareholders at the Annual General Meeting are as follows:

	Thousands of Euros	
	2016	2015
Dividends	63,975	51,725
Reserves	-	17,242
	63,975	68,967

At the Board Meeting held on 11 October 2016, the Bank's directors resolved to distribute an interim dividend out of 2015 profit of EUR 47,117 thousand, which had been paid in full at 31 December 2016.

The provisional accounting statement prepared by the Bank's directors in accordance with Article 277 of the Consolidated Spanish Limited Liability Companies Law evidencing the existence of sufficient liquidity for the distribution of the interim dividend is as follows:

	Thousands of Euros
	30-09-2016
Profit before tax	66,223
Less:	
Estimated income tax	(19,106)
Distributable profit	47,117
Interim dividend to be distributed	47,117
Gross dividend per share (euros)	52.27

At the Bank's General Meeting held on 23 December 2016, the shareholders resolved to distribute a dividend of EUR 17,242 thousand out of voluntary reserves. This dividend had been paid in full at the end of 2016.

5. Remuneration and other benefits paid to the Bank's directors and senior executives

a) Remuneration of directors

In 2016, the Bank's Board members received no remuneration in respect of salaries, bylaw-stipulated emoluments or attendance fees, except for Ms Laura Febbraro, who received EUR 15 thousands for those items (2015: EUR 15 and EUR 4 thousand for Ms Laura Febbraro and Mr Rodrigo Echenique, respectively).

In 2016 and 2015, the directors did not receive any other short-term remuneration, post-employment benefits, other long-term benefits, termination benefits or equity-instrument-based payments. Also, at 31 December 2016 and 2015, the Bank had no post-employment benefit obligations to its current or former Board members.

However, in 2016, the Bank paid an insurance company premiums amounting to EUR 25 thousand in relation to third-party liability insurance to cover the Bank's directors and executives (2015: EUR 25 thousand).

b) Remuneration of senior executives

For the purposes of the preparation of these financial statements, the Bank's senior executives were considered to be all the members of the Management Committee, the other employees who belong to the group identified by the Bank pursuant to the definition contained in Bank of Spain Circular 2/2016, of 2 February, which completes the adaptation of Spanish law to Directive 2013/36/EU and Regulation (EU) 575/2013, and certain regional and area managers.

Following is a detail of the remuneration paid to the Group's senior executives in 2016 and 2015:

Year	Number of Persons	Thousands of Euros		
		Salary		
		Fixed	Variable	Total
2016	29	4,658	2,004	6,662
2015	28	4,010	1,590	5,600

At the Bank's General Meeting held on 23 December 2016, the shareholders resolved to approve extraordinary variable remuneration of EUR 1,005 thousand to certain senior executives. This amount will be recognised in 2017. 40% of this extraordinary variable remuneration will be paid on a deferred basis over three years.

In 2016 and 2015, the senior executives did not receive any other variable remuneration relating to long-term incentive plans. A 31 December 2016 and 2015, no incentive plans were in force.

c) Pension, insurance and other obligations

At 2016, year-end, the Bank had commitments to defined benefit post-employment obligations with 19 of the current senior executives of the Bank for retirement, permanent disability or death (2015: 19 members). The contributions made in this connection in 2016 amounted to EUR 161 thousand (2015: EUR 140 thousand) (see Note 25.1).

The capital guaranteed by life insurance policies for senior executives amounted to EUR 14,700 thousand at 31 December 2016 (31 December 2015: EUR 13,151 thousand). The Group paid premiums of EUR 27 thousand to insurance companies in this connection in 2016. At 31 December 2016 and 2015, there were no life insurance policies covering any of the Bank's current or former directors.

d) Loans

The Group's direct lending to previous or current members of its Board of Directors or senior executives, and the guarantees provided to them, are detailed below. These transactions were made on an arm's-length basis or the related compensation in kind was recognised:

	Thousands of Euros					
	2016			2015		
	Loans and Credits	Guarantees	Total	Loans and Credits	Guarantees	Total
Directors	-	-	-	-	-	-
Senior Executives	10	-	10	17	-	17
	10	-	10	17	-	17

e) Information regarding situations of conflict of interest involving the directors

At the end of 2016, the members of the Bank's Board of Directors had not notified the other members of the Board of Directors of any direct or indirect conflict of interest that they or persons related to them as defined in the Spanish Limited Liability Companies Law might have with respect to the Bank.

6. Cash, cash balances at Central Banks and other demand deposits

The detail of "Cash, cash balances at Central Banks and other demand deposits" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015, is as follows:

	Thousands of Euros	
	2016	2015
Cash	18	19
Cash balances at Central Banks (*)	179,361	32,289
Other demand deposits	209,691	376,004
	389,070	408,312

(*) This balance relates to cash held at the Bank of Spain and the Bank of Italy. The cash is considered eligible for liquidity requirements and enables the Bank to reduce its counterparty risk concentration.

Note 29 provides information about this financial instruments fair value at December 31, 2016 and 2015. Note 30.d includes information about liquidity risk, considering the existence of this financial instruments.

The balance recognised under this heading at 31 December 2016 and 2015 represents the maximum level of credit risk exposure assumed by the Group in relation to these instruments.

Note 27 provides information on the residual maturities and the average interest rates on the debt instruments classified in this financial asset category.

At 31 December 2016 and 2015, the Group did not hold any assets in this category with accrued, past-due amounts or that were impaired.

7. Available-for-sale financial assets

Following is a detail of the financial assets included in "Available-for-Sale Financial Assets" in the consolidated balance sheets as at 31 December 2016 and 2015:

	Thousands of Euros	
	2016	2015
Equity instruments:		
Shares not quoted on organised markets (*)	193	193
	193	193
Debt instruments:		
Resident public sector securities	-	10,004
Non-resident public sector securities	10,018	10,003
	10,018	20,007
	10,211	20,200

(*) Relates to the amount of the shares held by the Bank in S.W.I.F.T., SCRL, an unlisted company.

"Non-resident public sector securities" in the foregoing table at 31 December 2016 related in full to Italian treasury bills that the Group acquired on 26 October 2015 amounting to EUR 9,975 thousand and which mature on 30 August 2017.

"Resident public sector securities" at 31 December 2015 in the foregoing table at 31 December 2015, relates in full to Spanish treasury bills, that the Group acquired on 22 October 2015 amounting to EUR 9,999 thousand and which matured on 14 October 2016.

The interest earned on these instruments is included under "Interest income" in the income statements for 2016 and 2015 (see Note 20).

In 2016 changes in the fair value of "debt securities" in the foregoing table amounting to EUR 2 thousand were recognised, net of the related tax effect, under "Equity – Accumulated other comprehensive income" (2015: EUR 21 thousand).

At 31 December 2016 and 2015, the Bank did not hold any debt instruments assigned to own or third-party commitments.

Note 27 provides information on the residual maturities and the average interest rates on the debt instruments classified in this financial asset category. Note 29 provides information on the fair value of these financial assets.

At 31 December 2016 and 2015, there were no impaired or past-due but not impaired financial assets in this category, nor even impairment losses on these assets and no impairment losses were recognised in those years.

8. Loans and receivables

The detail, by type of financial instrument, of "Loans and Receivables" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015, is as follows:

	Thousands of Euros	
	2016	2015
Loans and receivables:		
to Central Banks	3,539	2,923
to credit institutions	329,792	262,327
to customers	11,104	11,480
	344,435	276,730

8.1. Loans and advances to Central Banks

The consolidated balance of this item on the asset side of the accompanying consolidated balance sheets as at 31 December 2016 and 2015 relates in full to the balances held with the Bank of Spain and the Bank of Italy in order to meet the minimum reserve ratio requirements. This ratio is calculated based on customer deposits and securities other than shares maturing in less than two years.

At 31 December 2016 and 2015, the Group met the minimum reserve ratio required by the applicable Spanish legislation.

8.2. Loans and advances to credit institutions

The detail, by type and currency of the transaction, of "Loans and Advances to Credit Institutions" on the asset side of the accompanying consolidated balance sheets as at 31 December 2016 and 2015, is as follows:

	Thousands of Euros	
	2016	2015
Type:		
Time deposits	328,921	261,973
Add: Valuation adjustments	871	354
<i>Of which-</i>		
<i>Accrued interest</i>	<i>871</i>	<i>354</i>
	329,792	262,327
Currency:		
Euro	329,671	170,353
Foreign currencies	121	91,974
	329,792	262,327

Note 27 contains a detail of the terms to maturity of these assets at 2016 and 2015 year-end and of the average annual interest rates in 2016 and 2015. Note 29 provides information on the fair value of these financial assets.

8.3. Loans and advances to customers

The detail, by loan type and status and borrower's geographical area of residence, of "Loans and Advances to Customers" on the asset side of the accompanying consolidated balance sheets as at 31 December 2016 and 2015, is as follows:

	Thousands of Euros	
	2016	2015
By operation type and status:		
Receivable on demand and other (*)	10,779	11,055
Impaired assets (**)	911	1,092
Less: Valuation adjustments	(586)	(667)
<i>Of which-</i>		
<i>Impairment losses</i>	<i>(586)</i>	<i>(667)</i>
	11,104	11,480
Borrower's geographical area:		
Spain	584	461
European Union (excluding Spain)	10,225	9,873
Rest of the world	295	1,146
	11,104	11,480

(*) At 31 December 2016 and 2015, this item included EUR 2,723 thousand and EUR 3,954 thousand, respectively, in respect of fees and commissions for the marketing of units in collective investment undertakings receivable at those dates (see Note 22).

(**) Correspond, entirely, to the commissions of shares from Collective Investment Undertakings pending of collection at that dates (see Note 22).

Note 27 contains a detail of the terms to maturity of these assets at 2016 and 2015 year-end and of the average annual interest rates in 2016 and 2015. Note 29 provides information on the fair value of these financial assets.

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

Impairment losses

The changes in the balance of "Impairment Losses" in the foregoing table in 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
Beginning balance	667	27
Impairment losses charged to consolidated income for the year	-	640
<i>Of which:</i>		
<i>Specific allowances for financial assets, collectively estimated (*)</i>	-	612
<i>Collective allowances for incurred but not reported losses on financial assets</i>	-	28
Impairment losses reversed with a credit to consolidated income	(81)	-
<i>Of which:</i>		
<i>Specific allowances for financial assets, collectively estimated</i>	(42)	-
<i>Collective allowances for incurred but not reported losses on financial assets</i>	(39)	-
Net impairment charge for the year (**)	(81)	640
Ending balance	586	667
<i>By method of assessment:</i>		
<i>Specific allowances for financial assets, collectively estimated (*)</i>	574	616
<i>Collective allowances for incurred but not reported losses on financial assets</i>	12	51

(*) These amounts related in full to impairment losses on fees and commissions receivable for the marketing of units in collective investment undertakings.

(**) Recognised under "Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net" in the accompanying consolidated income statements for 2016 and 2015.

Past-due but not impaired financial assets

The Group held past-due but not impaired financial assets in the accompanying balance sheets as at 31 December 2016 and 2015 amounting to EUR 3,915 thousand and EUR 5,861 thousand, respectively, all of which had maturities of less than 90 days, were held with other financial companies and arose from uncollected fees from the marketing of units in collective investment undertakings and demand deposit overdrafts at those dates.

Impaired assets

The detail of the changes in the balance of the financial assets classified as loans and receivables and collectively estimated to be impaired due to credit risk at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Beginning balance	1,092	4
Additions net of recoveries	(181)	1,088
Ending balance	911	1,092

At 31 December 2016 and 2015, there was no accrued interest receivable on these assets.

In addition, following is a detail of the financial assets classified as loans and receivables which were considered to be impaired due to credit risk at 31 December 2016 and 2015, classified by age of the oldest past-due amount:

	Thousands of Euros				
	With Balances Past Due by				Total
	Within 6 Months	6 to 9 Months	9 to 12 Months	More than 12 Months	
Balances at 31 December 2016	359	174	111	267	911
Balances at 31 December 2015	376	334	109	273	1,092

Written-off assets

At 31 December 2016 and 2015, the Group did not hold any financial assets classified as loans and receivables and considered to be written-off assets, and there were no changes in this connection in those years.

9. Trading derivatives (assets and liabilities)

The balances recognised under "Trading Derivatives" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 reflect the fair value of trading derivatives whose inherent risk is foreign currency risk. Information on the notional value of the derivatives is included in Note 19.

10. Tangible assets

The changes in 2016 and 2015 in "Tangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2016	2015
Cost:		
Beginning balance	10,174	8,309
Additions	3,868	2,359
Disposals	(1,029)	(494)
Ending balance	13,013	10,174
Accumulated depreciation:		
Beginning balance	(6,171)	(5,772)
Charge for the year (*)	(1,117)	(887)
Disposals	891	488
Ending balance	(6,397)	(6,171)
Impairment losses:		
Beginning balance	-	-
Charge for the year (**)	(138)	(6)
Disposals	138	6
Ending balance	-	-
Tangible assets, net	6,616	4,003

(*) This amount was recognised with a charge to "Depreciation" in the accompanying consolidated income statements for 2016 and 2015.

(**) This amount was recognised with a charge to "Impairment or reversal of impairment on non-financial assets – Tangible assets" in the accompanying consolidated income statement for 2016.

The detail, by type of asset, of the items composing "Tangible Assets" in the accompanying consolidated balance sheets at 31 December 2016 and 2015 is as follows:

	Thousands of Euros		
	Cost	Accumulated Depreciation	Carrying Amount
Furniture and fixtures	8,608	(5,126)	3,482
Computer hardware	1,566	(1,045)	521
Balances at 31 December 2015	10,174	(6,171)	4,003
Furniture and fixtures	10,804	(5,088)	5,716
Computer hardware	2,209	(1,309)	900
Balances at 31 December 2016	13,013	(6,397)	6,616

At 31 December 2016, fully depreciated tangible assets amounted to approximately EUR 3,785 thousand (31 December 2015: approximately EUR 2,035 thousand).

In view of the nature of the Group's tangible assets, its directors consider that their fair values do not differ significantly from their respective carrying amounts at 31 December 2016 and 2015.

At 31 December 2016 and 2015 and throughout those years, there were no impairment losses on property, plant and equipment for own use in addition to those indicated this Note.

11. Intangible assets

The detail of "Intangible Assets" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
IT developments	10,617	10,912
Less: Accumulated amortisation	(5,518)	(6,973)
Total, net	5,099	3,939

At 31 December 2016 or 2015, all of the Group's intangible assets had a finite useful life.

The changes (gross amounts) in 2016 and 2015 in "Intangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2016	2015
Beginning balance	10,912	10,745
Additions	2,316	2,416
Disposals	(2,611)	(2,249)
Ending balance	10,617	10,912

The changes in "Accumulated Amortisation" in 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
Beginning balance	(6,973)	(6,416)
Charge for the year (*)	(1,156)	(2,806)
Disposals	2,611	2,249
Ending balance	(5,518)	(6,973)

(*) These amounts were recognised with a charge to "Depreciation" in the accompanying consolidated income statements for 2016 and 2015.

At 31 December 2016, fully amortised intangible assets amounted to approximately EUR 1,469 thousand (31 December 2015: approximately EUR 2,613 thousand). None of the Group's intangible assets were impaired or had become impaired at 31 December 2016 or 2015 or in the years then ended, and no balance was recognised in this connection in those years.

None of the Group's intangible assets were impaired or had become impaired at 31 December 2016 or 2015 or in the years then ended, and no balance was recognised in this connection in those years.

12. Tax matters

The Milan, London and Singapore branches file individual tax returns, in conformity with the tax regulations applicable in Italy, the United Kingdom and Singapore, respectively. The income tax expense recognised by the Group for 2016 was accrued in full at the Italian branch, by the Bank in Spain and by the subsidiaries Allfunds Bank International and Allfunds International Schweiz AG, and amounted to EUR 11,429 thousand, EUR 17,184 thousand, EUR 335 thousand and EUR 67 thousand, respectively (2015: EUR 11,852 thousand, EUR 19,380 thousand, EUR 43 thousand and EUR 310 thousand, respectively). Additionally, the Group recognised a charge of EUR 1,724 thousand under "Tax expense or income related to profit or loss from continuing operation" in the accompanying 2016 consolidated income statement for adjustments made to the 2015 income tax settlement as a result of the application of Articles 25 and 31 of Spanish Income Tax Law 27/2014, of 27 November (a charge of EUR 37 thousand in 2015 relating to adjustments made in the income tax settlement for 2014).

Although the income tax return for 2016 has not yet been filed, the reconciliation of the consolidated accounting profit to the estimated taxable profit in Spain, and the Spanish income tax expense recognised in the consolidated income statements for 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Consolidated profit before tax	96,365	107,605
Permanent differences:		
Additions	1,826	4,577
Reductions (*)	(6,753)	(43,462)
Tax base	91,438	64,600
Tax rate applicable in Spain	30%	30%
Total	27,431	19,380
Less deductions and bonuses (**)	(10,247)	-
Income tax expense	17,184	19,380

(*) Relating mainly to the results of the branches abroad, which are taxed in the respective countries in which they are established, and to the earnings/losses of the consolidated companies.

(**) Relating to deductions applied to the results of the branches abroad, which are taxed in each of the countries in which they are established as a result of the application of Article 31 of Spanish Income Tax Law 27/2014, of 27 November.

"Tax Liabilities - Current Tax Liabilities" the accompanying balance sheets includes the current liability relating to the various taxes applicable to the Bank, which at 2016 and 2015 year-end related substantially in full to the income tax payable for those years, less payments made on account in the year.

Law 16/2012, of 27 December, adopting various tax measures aimed at consolidating public finances and boosting economic activity, established a 70% limit on the deductibility of the period amortisation and depreciation of intangible assets, property, plant and equipment and investment property in 2013 and 2014. Any accounting depreciation or amortisation charge that is not tax deductible may be deducted on a straight-line basis over ten years or, optionally, over the useful life of the asset as from the first tax period beginning in 2015. As a consequence of the above, in 2016 the Bank filed supplementary income tax returns in relation to income tax for 2014 and 2013, recognising deferred tax assets of EUR 502 thousand which are recognised under "Tax Assets - Current Tax Assets" in the accompanying balance sheet as at 31 December 2016.

In 2016 EUR 1 thousand were recognised under "Tax Liabilities - Tax Deferred Assets" in the accompanying consolidated balance sheet as at 31 December 2016 in connection with the income recognised directly in the Bank's equity arising from valuation adjustments on "Available-for-Sale Financial Assets" (2015: EUR 9 thousand). EUR 22 thousand of exchange differences were also recognised in 2016 under "Accumulated other comprehensive income- Items that may be reclassified to profit or loss- Foreign currency translation" in consolidated equity (2015: EUR 55 thousand).

For reporting purposes as provided for in the Spanish Income Tax Law, it is hereby stated that no transactions were performed under the special tax regime for mergers, spin-offs, contributions of assets and exchanges of securities in which the Bank acted as the acquirer or as a shareholder.

In addition, pursuant to current legislation, tax settlements cannot be deemed to be definitive until they have been reviewed by the tax authorities or until the related statute-of-limitations period has expired. Therefore, at 31 December 2016, the Bank had the taxes applicable to it open for review by the tax authorities, in relation to its activity for which, at that date, the period established by the corresponding regulations for the related review (four years since the end of the voluntary filing period in the case of Spanish legislation) had not elapsed.

At 31 December 2016 and 2015, there were no tax loss or tax credit carryforwards or unrecognised deferred tax assets arising from temporary differences except for the tax loss carryforwards from prior years arising at the London branch, amounting to EUR 1,593 thousand and EUR 1,265 thousand, respectively, there being no time limit on the offset of these balances, and certain tax exemptions held by the subsidiary Allfunds Bank International, S.A. which, in accordance with the accounting principle of prudence, the Group has not recognised since the timing of their recovery is not certain.

As a result of the tax audit for 2007 of the Italian branch, tax assessments amounting to EUR 110 thousand were issued, of which assessments amounting to EUR 100 thousand were signed on a contested basis, leaving an amount of EUR 7 thousand payable at 31 December 2016.

In view of the varying interpretations that can be made of certain tax regulations applicable to the operations of the Bank and the consolidated companies, the open years might give rise to contingent tax liabilities. However, the Bank's directors and tax advisers consider that the tax charge, if any, which might arise from future inspections by the tax authorities, or from inspections already performed but pending a final decision, would not have a material effect on these consolidated financial statements.

13. Other assets and other liabilities

The detail of "Other Assets" and "Other Liabilities" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros			
	Assets		Liabilities	
	2016	2015	2016	2015
Sundry accounts	1,264	1,081	3,179	2,478
Accrued expenses (*)	-	-	10,944	7,562
Accrued fees and commissions on the marketing of units in collective investment undertakings (Notes 22 and 23)	177,701	182,481	142,957	149,154
Other revenues outstanding until expiration	1,268	967	-	-
Prepaid expenses	1,029	133	-	-
	181,262	184,662	157,130	159,194

(*) At 31 December 2016 and 2015, this item included EUR 5,253 thousand and EUR 5,236 thousand, respectively, relating to the variable remuneration payable at those dates. The Bank's directors consider that no significant differences will arise between these amounts and those finally paid.

14. Financial liabilities at amortised cost

The detail, by type of financial instrument, of "Financial Liabilities at Amortised Cost" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Financial liabilities at amortised cost:		
Deposits from credit institutions	233,172	186,944
Deposits from customers	233,785	195,406
Other financial liabilities	138,014	164,391
	604,971	546,741

14.1. Deposits from credit institutions

The detail, by type and currency, of "Deposits From Credit Institutions" on the liability side of the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Type:		
Demand accounts	233,172	186,944
	233,172	186,944
Currency:		
Euros	168,894	102,075
Foreign currencies	64,278	84,869
	233,172	186,944

Note 27 contains a detail of the terms to maturity of these liabilities at 2016 and 2015 year-end and of the average annual interest rates in 2016 and 2015, and Note 29 provides information on the fair value of these financial liabilities.

14.2. Deposits from customers

The detail, by type and currency, of "Deposits from customers" on the liability side of the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Type:		
Demand accounts	233,785	195,406
	233,785	195,406
Currency:		
Euros	195,327	146,118
Foreign currencies	38,458	49,288
	233,785	195,406

The balance of "Deposits from customers" included current accounts held by the non-resident sector, for an amount of EUR 231,357 thousand and EUR 192,497 thousand as at 31 December 2016 and 2015, respectively.

Note 27 contains a detail of the terms to maturity of these liabilities at 2016 and 2015 year-end and of the average annual interest rates in 2016 and 2015, and Note 29 provides information on the fair value of these financial liabilities.

14.3. Other financial liabilities

The detail of "Other Financial Liabilities" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Tax collection accounts	16,392	12,592
Special accounts	94,381	132,843
Payment obligations (*)	12,981	6,506
Other	14,260	12,450
	138,014	164,391

(*) Includes EUR 12,891 thousand and EUR 6,232 thousand relating to accrued fees and commissions payable at 31 December 2016 and 2015, respectively (see Note 23). It also includes EUR 26 thousand relating to the amounts not yet contributed at 31 December 2016 to the Group employees' defined contribution plans (2015: EUR 37 thousand) -see Note 2-m-.

"Special accounts" in the foregoing table basically refers to funds temporarily held on behalf of clients due to orders of transfer of investments in collective investment undertakings received, which were yet to be settled, at year-end.

Note 27 contains a detail of the terms to maturity of these liabilities at 2016 and 2015 year-end, and Note 29 provides information on the fair value of these financial liabilities.

Disclosures on the average periods of payment to suppliers. Additional Provision Three. "Disclosure obligation" provided for in Law 15/2010, of 5 July

Set forth below are the disclosures required by Additional Provision Three of Law 15/2010, of 5 July (amended by Final Provision Two of Law 31/2014, of 3 December), prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements in relation to the average period of payment to suppliers in commercial transactions corresponding to Allfunds Bank, S.A.

As permitted by the Single Additional Provision of the aforementioned Resolution, since this is the first reporting period in which it is applicable, no comparative information is presented. The aforementioned required disclosures are as follows:

	Days	
	2016	2015
Average period of payment to suppliers	26	22
Ratio of transactions settled	26	22
Ratio of transactions not yet settled	22	25

	Thousands of Euros	
	2016	2015
Total payments made	17,099	14,313
Total payments outstanding	595	939

In accordance with the ICAC Resolution, the average period of payment to suppliers was calculated by taking into account the commercial transactions relating to the supply of goods or services for which payment has accrued since the date of entry into force of Law 31/2014, of 3 December.

For the sole purpose of the disclosures provided for in the Resolution, suppliers are considered to be the trade creditors for the supply of goods or services.

"Average period of payment to suppliers" is taken to be the period that elapses from the date of receipt of the invoices (with no significant differences compared to the corresponding dates of the invoices) and the payment date.

15. Shareholders' equity

The balance of "Shareholders' Equity" in the accompanying consolidated balance sheets as at 31 December 2016 and 2015 amounted to EUR 173,377 thousand and EUR 185,943 thousand, respectively. The balance of "Shareholders' Equity" at 31 December 2016 and 2015 in the accompanying balance sheets includes the amounts of equity contributions from shareholders, accumulated profit or loss recognised through the income statement, that have not been distributed to shareholders.

The changes in the Group's shareholders' equity in 2016 and 2015 are presented in the accompanying consolidated statements of changes in total equity for 2016 and 2015.

16. Paid up capital

On 19 November 2014, Banco Santander, S.A. sold 450,677 of the Bank's shares representing 50% of its share capital to AFB SAM Holdings, S.L. (of which Banco Santander, S.A. owns 50.50% of its share capital). Also, on 23 December 2014, Intesa Sanpaolo S.p.A. transferred title to 450,677 of the Bank's shares representing the other 50% of its share capital to Eurizon Capital SGR S.p.A. (an Intesa Sanpaolo Group company).

As a result of the foregoing, at 31 December 2016 and 2015, the Bank's share capital consisted of 901,354 fully subscribed and paid registered shares of EUR 30 par value each, all with the same voting and dividend rights. At those dates, the Bank's shareholders were AFB SAM Holdings, S.L. (50%) and Eurizon Capital SGR S.p.A. (50%). As regards share transfers, the intention to sell must be notified to the Chairman of the Board of Directors, and the remaining shareholders have a pre-emptive acquisition right for 15 days, although relating to the purchase agreement described in the preceding paragraph, that right has not been exercised.

17. Retained earnings

The balance of "Retained earnings" in the accompanying consolidated balance sheets includes the net amount of the accumulated profit or loss recognised in previous years through the consolidated income statement that, in the distribution of the profit, was assigned to consolidated equity and was not distributed subsequently to the Bank's shareholders later.

The detail of "Retained earnings" of the consolidated balance sheets as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Retained earnings:		
Legal	5,408	5,408
Capitalisation reserve	4,636	-
To voluntary reserves	100,508	106,471
Reserves at subsidiaries-	13,827	5,483
<i>Allfunds Bank International, S.A.</i>	17,872	7,349
<i>Allfunds International, Schweiz AG</i>	(4,121)	(1,866)
<i>Allfunds Bank Brasil Representações Ltda.</i>	(24)	-
	124,379	117,362

Legal reserve

Under Legislative Royal Decree 1/2010, of 2 June, approving the Consolidated Spanish Limited Liability Companies Law, Spanish entities must transfer 10% of net profit for each year to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. At 31 December 2016 and 2015, the Bank's legal reserve had reached the stipulated level.

Capitalisation reserve

Article 25 of Spanish Income Tax Law 27/2014, of 27 November, created the concept of the capitalisation reserve, which consists of a restricted reserve that allows taxable profit to be reduced by 10% of the amount of the increase in shareholders' equity up to the limit of 10% of taxable profit prior to the offset of any tax losses, provided the increase is maintained over a five-year period from the end of the tax period in which the adjustment was carried out, unless the company has accounting losses. As a result of the above, in 2016, the Bank recognised a capitalisation reserve of EUR 4,636 thousand (see Note 12).

18. Memorandum items

"Memorandum Items" relates to balances at 31 December 2016 and 2015 relates to balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions performed by the Group although they may not impinge on its net assets.

Contingent obligations held by the Group which may result in the recognition of financial assets refer in their entirety to those available to third parties. The detail thereof at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Available to third parties:		
Credit institutions	38,571	38,592
Other resident sectors	300	550
Other non-resident sectors	11,200	8,949
	50,071	48,091

Also, at 31 December 2016, the Group held off-balance-sheet funds under management relating to units in collective investment undertakings (CIUs) amounting to EUR 253,162 million (31 December 2015: EUR 215,738 million).

19. Notional values of trading derivatives

The detail of the notional and/or contractual amounts of the trading derivatives held by the Group at 31 December 2016 and 2015, maturing in less than twelve months, is as follows:

	Thousands of Euros	
	2016	2015
Unmatured foreign currency purchases and sales (*):		
Purchases	60,329	34,650
Sales	67,359	29,460

(*) Relating to OTC foreign currency purchases and sales.

The above transactions mature at less than one year.

The notional and/or contractual amounts of the aforementioned contracts do not reflect the actual risk assumed by the Group, since the net position in these financial instruments is the result of offsetting and/or combining them. This net position is used by the Group basically to hedge the currency risk.

20. Interest Income

"Interest Income" at 2016 and 2015 in the accompanying consolidated income statements comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value (except for derivatives).

The detail of the main items of interest income earned by the Group in 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Loans and advances to credit institutions	1,238	3,934
Other finance income (*)	46	55
	1,284	3,989

(*) In 2016, it includes EUR 21 thousand relating to interest accrued on the debt instruments held by the Group classified as available-for-sale financial assets (EUR 23 thousand in 2015) -see Note 7-.

21. Interest expenses

"Interest expenses" in 2016 and 2015 in the accompanying consolidated income statements includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value (except for those that might have arisen from derivatives).

The detail of the main items of interest expense and similar charges borne by the Group in 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Deposits from credit institutions	162	83
Other	133	55
	295	138

22. Fee and commission income

"Fee and Commission Income" comprises the amount of all fees and commissions accruing in favour of the Group in the year, except those that form an integral part of the effective interest rate on financial instruments, if applicable.

The detail of "Fee and Commission Income" in the accompanying consolidated income statements at 31 December 2016 and 2015, is as follows:

	Thousands of Euros	
	2016	2015
Fee and commission income arising from:		
Marketing of products-		
Investment funds	711,325	718,878
Other	5,252	6,222
	716,577	725,100
Investment services-		
Administration and custody	1,675	1,817
	1,675	1,817
Other-		
Foreign exchange	11,419	13,849
Other fees and commissions	2,850	1,966
	14,269	15,815
	732,521	742,732

Fee and commission income arising in 2016 and 2015 from the distribution of units in collective investment undertakings amounted to EUR 711,325 thousand and EUR 718,878 thousand, respectively, of which EUR 181,335 thousand and EUR 187,527 thousand had not been received at 31 December 2016 and 2015, and were recognised under "Loans and receivables" and "Other assets", respectively in the accompanying consolidated balance sheets (see Notes 8.3 and 13).

23. Fee and commission expenses

"Fee and Commission Expenses" shows the amount of all fees and commissions paid or payable by the Group in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of "Fee and Commission Expenses" in the accompanying consolidated income statements at 31 December 2016 and 2015, is as follows:

	Thousands of Euros	
	2016	2015
Fees and commissions assigned to:		
Third parties	1,001	1,149
Distributors	577,007	585,714
	578,008	586,863

The fee and commission expenses incurred in 2016 and 2015 in respect of fees and commissions paid to distributors amounted to EUR 577,077 thousand and EUR 585,714 thousand, respectively, of which EUR 155,848 thousand and EUR 155,386 thousand were payable at 31 December 2016 and 2015, respectively, and were recognised under "Financial Liabilities at Amortised Cost – Other Financial Liabilities" and "Other Liabilities" in the accompanying consolidated balance sheets (see Notes 13 and 14.3).

24. Gains or losses on financial assets and liabilities held for trading, net

"Gains or losses on financial assets and liabilities held for trading, net" includes the amount of the valuation adjustments of financial instruments, arranged by the Group as an economic hedging of its foreign

currency positions in 2016 and 2015 to hedge its foreign currency positions which amounted to EUR 173 thousand and EUR 139 thousand in 2016 and 2015, respectively.

25. Administration costs

25.1. Personnel expenses

"Personnel expenses" comprises all the remuneration accruing in the year in any respect to permanent or temporary employees, regardless of their function or post.

The detail of "Personnel expenses" in 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Wages and salaries	23,602	21,003
Social security costs	4,004	3,378
Termination benefits	42	188
Contributions to defined contribution pension funds (Note 2-m) (*)	492	553
Training expenses	204	144
Other staff costs	597	283
	28,941	25,549

(*) Includes the 2016 and 2015 contributions to the defined contribution pension plans, of which EUR 161 thousand and EUR 140 thousand related to the contributions made for the Bank's senior management in 2016 and 2015, respectively (see Note 5-c).

The average number of employees at the Group, by professional category, in 2016 and 2015 was as follows:

	Average Number of Employees	
	2016	2015
Senior executives	29	27
Other line personnel	278	235
General services personnel	8	7
	315	269

At 31 December 2016 and 2015, the number of employees at the Group, by professional category and gender, was as follows:

	2016		2015	
	Women	Men	Women	Men
Senior executives	7	22	5	23
Other line personnel	135	155	122	134
General services personnel	8	-	7	-
	150	177	134	157

At 31 December 2016 and 2015, the Bank's Board of Directors consisted of one woman and five men (2015: one woman and four men).

Also, it is hereby stated that in 2016 and 2015 the Bank had one employee with a disability equal to or greater than 33%.

At 31 December 2016 and 2015, under the collective agreements currently in force and other agreements, the Group had defined contribution obligations to supplement the public social security system benefits accruing to certain employees in the Milan and London branches, Madrid office, and to their beneficiary right holders, for retirement, permanent disability or death. At 31 December 2016 and 2015, the Group did not have any defined-benefit pension or similar long-term obligations to its employees.

25.2. Other general administrative expenses

The detail of "Other General Administrative Expenses" in the accompanying consolidated income statements for 2016 and 2015, is as follows:

	Thousands of Euros	
	2016	2015
Property, fixtures and supplies (*)	5,535	3,483
Information technology	7,846	5,598
Communications	1,499	2,313
Advertising and publicity	761	569
Legal expenses and lawyers' fees	604	523
Technical reports	2,827	1,966
Surveillance and cash courier services	78	77
Insurance and self-insurance premiums	266	228
Governing and Control Bodies	15	19
Entertainment and staff travel expenses	3,328	2,763
Association membership fees	284	297
Subcontracted administrative services	3,794	3,652
Levies and taxes	1,401	769
Contributions to foundations	45	36
Other expenses	248	274
	28,531	22,567

(*) Includes lease expenses on the branches at which the Group companies carry on their business amounting to EUR 4,148 thousand (EUR: 2,156 thousand in 2015). -see Note 2-g-.

In 2016, "Technical reports" in the foregoing table includes, among others, the fees for audit and other services provided by the auditor to the Group or companies related thereto by control, common ownership or management, which are detailed below:

	Thousands of Euros
Audit services	252
Other assurance services	41
Total Audit services and related	293
Other services	54
Total professional services	347

In addition, entities of the international Deloitte network invoiced to the UK branch an amount of EUR 9 thousand for Tax Consultancy services.

The services provided by the Bank's auditors meet the independence requirements included in the applicable regulation in Spain and did not involve the performance of any work that is incompatible with the audit function.

26. Other operating income and other operating expenses

The balance of "Other operating income" in the accompanying consolidated income statements relates mainly to income from the provision of non-financial services.

The balance of "Other operating expenses" in the accompanying consolidated income statements relates to losses arising from Group's normal operations. Also, it includes the expense incurred on the contribution made to the Single Resolution Fund in 2016 amounting to EUR 125 thousand (2015: EUR 54 thousand to the National Resolution Fund and the equivalent Luxembourg fund) -see Note 1.i-

27. Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheets as at 31 December 2016 and 2015, and of the average interest rates in both years is as follows:

	2016							Average Annual Interest Rate (%)
	Thousands of Euros							
	Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total	
Assets:								
Cash, cash balances at Central Banks and other Demand deposits (Note 5)	389,070	-	-	-	-	-	389,070	0.01%
Available-for-sale financial assets (Note 6)- Debt instruments	-	-	-	10,018	-	-	10,018	0.14%
Loans and receivables (Note 7)- Loans and advances to Central Banks	-	3,539	-	-	-	-	3,539	0.00%
Loans and advances to credit institutions	-	18,800	-	270,162	40,830	-	329,792	0.42%
Loans and advances to customers	10,437	8	16	113	373	157	11,104	0.00%
	399,507	22,347	16	280,293	41,203	157	743,523	
Liabilities:								
Financial liabilities at amortised cost (Note 14)- Deposits from credit institutions	233,172	-	-	-	-	-	233,172	0.00%
Customer deposits	233,785	-	-	-	-	-	233,785	0.00%
Other financial liabilities	121,533	16,481	-	-	-	-	138,014	0.00%
	588,490	16,481	-	-	-	-	604,971	

	2015							Average Annual Interest Rate (%)
	Thousands of Euros							
	Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total	
Assets:								
Cash, cash balances at Central Banks and other Demand deposits (Note 5)	408,312	-	-	-	-	-	408,312	0.22%
Available-for-sale financial assets (Note 6)- Debt instruments	-	-	-	10,004	10,003	-	20,007	0.07%
Loans and receivables (Note 7)- Loans and advances to Central Banks	-	2,923	-	-	-	-	2,923	0.00%
Loans and advances to credit institutions	-	91,854	44	30,120	140,309	-	262,327	1.15%
Loans and advances to customers	10,975	7	13	60	163	262	11,480	0.00%
	419,287	94,784	57	40,184	150,475	262	702,126	
Liabilities:								
Financial liabilities at amortised cost (Note 14)- Deposits from credit institutions	186,944	-	-	-	-	-	186,944	0.00%
Customer deposits	195,406	-	-	-	-	-	195,406	0.00%
Other financial liabilities	151,524	12,867	-	-	-	-	164,391	0.00%
	533,874	12,867	-	-	-	-	546,741	

This table, prepared pursuant to the legislation applicable to the Group, does not reflect the Group's liquidity position since it considers demand accounts and other customer deposits as any other liability, whereas their stability is a typical feature of commercial banking. Considering this effect, the differences between assets and liabilities for each of the maturity periods are within reasonable thresholds in view of the business volume managed, and the directors do not envisage any liquidity problems or stress for the Group.

28. Related party transactions

a) Transactions with companies in the Intesa Sanpaolo Group and the Santander Group

The detail of the Group's most significant balances at 31 December 2016 and 2015 and of the results of the transactions performed in those years with Intesa Sanpaolo Group companies and Santander Group companies (see Note 15) is as follows:

	Thousands of Euros			
	2016		2015	
	Santander Group Entities	Intesa Sanpaolo Group Entities	Santander Group Entities	Intesa Sanpaolo Group Entities
Assets:				
Loans and advances to credit institutions	87,426	287	504,716	190
Loans and advances to customers	9	-	2	169
Trading derivatives	262	214	285	114
Other assets	4,552	899	3,437	675
Liabilities:				
Deposits from credit institutions	3,445	17,492	7,279	5,331
Other financial liabilities	2,798	1,908	37	396
Trading derivatives	371	28	211	56
Other liabilities	27,035	2,391	30,315	2,767
Profit and loss:				
Debit-				
Interest expenses				
Fee and commission expenses	-	-	120,488	11,826
Other administrative expenses	110,189	9,971	-	-
Other general administrative expenses	3,661	20	2,547	20
Credit-				
Interest income	365	-	3,211	-
Fee and commission income	16,095	3,136	13,149	2,435
Other operating income	120	-	120	-

b) Transactions with the Bank's Board members and Senior executives of the Group

The information on the remuneration payable to the Board members and Group's key executives is detailed in Note 5.

29. Fair value of financial assets and financial liabilities

The following breakdown, by class of financial asset and liability, of the fair value of the Group's financial instruments at 31 December 2016 and 2015:

	Thousands of Euros			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash, cash balances at Central Banks and other demand deposits	389,070	389,070	408,312	408,312
Financial assets held for trading – Derivatives	639	639	444	444
Available-for-sale financial assets	10,211	10,211	20,200	20,200
Loans and receivables	344,435	345,866	276,730	278,211
	744,355	745,786	705,686	707,167
Financial liabilities:				
Financial liabilities held for trading – Derivatives	466	466	304	304
Financial liabilities at amortised cost	604,971	604,971	546,741	546,741
	605,437	605,437	547,045	547,045

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

- Cash, cash balances at central banks and other demand deposits: relate to financial assets convertible into cash on demand and, accordingly, their fair value was considered to coincide with their carrying amount.
- Trading derivatives (assets and liabilities): the fair value of the trading derivatives was obtained by discounting estimated cash flows based on the forward curves of the respective underlyings, quoted in the market.
- Available-for-sale financial assets: these relate substantially in full to debt securities the fair value of which was obtained by applying prices obtained from information service providers, mainly Bloomberg, which construct their quotes on the basis of prices reported by contributors. Of the total balance recognised at 31 December 2016 and 2015, EUR 193 thousand related to unlisted equity instruments measured at acquisition cost.
- Loans and receivables: the fair value of loans and receivables was obtained using the present value model, which discounts future cash flows to the present, using interest rates based on directly or indirectly observable market data to calculate the discount rate.
- Financial liabilities at amortised cost: these relate to financial liabilities at amortised cost at a fixed interest rate and maturing at less than one year and, accordingly, it was considered that their fair value coincided with their carrying amount since there were no significant differences.

In accordance with the applicable legislation, following is certain information regarding the classification of financial instruments recognised at fair value pursuant to the following definitions:

- **LEVEL 1:** financial instruments whose fair value was determined by reference to their quoted prices (unadjusted) in active markets.
- **LEVEL 2:** financial instruments whose fair value was estimated by reference to quoted prices on organised markets for similar instruments or using other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data.
- **LEVEL 3:** instruments whose fair value was estimated by using valuation techniques in which one or another significant input is not based on observable market data.

At 31 December 2016 and 2015, all the available-for-sale financial assets carried at fair value were classified as Level 1 and the asset and liability derivatives were classified as Level 2.

30. Risk management

a) Credit risk exposure

Credit risk is the possibility of loss stemming from the failure of customers or counterparties to meet their payment obligations to the Group. Specifically, the exposure is mainly to regulated institutions (which are the only authorised customers for the Group) to which the Group has granted credit lines tied to the settlement of brokerage transactions.

In order to manage and control this risk, the Risk Control Unit has implemented a system of account overdraft limits by counterparty based on an internal rating assignment methodology which results in a probability of default for each counterparty. This assigned probability is reviewed and measured at least once a year, so that the limits can be adjusted to each customer's risk profile.

Counterparty limits are controlled through an integrated system operating in real time, enabling the Group to be aware at all times of the unused credit line for each counterparty.

As can be seen in the following sections of this Note and in other sections of these notes to the consolidated financial statements, at 31 December 2016 and 2015, the main asset positions held by the Group related to unsecured balances with financial institutions located in the European Union and balances of an eminently transitional nature associated with its activity, with non-performing balances representing 0.10% and 0.12%, respectively, of its assets at those dates, the coverage ratio of those balances being 63% and 56%, respectively.

In view of the business activities carried on by it, the Group does not provide financing for property construction or development, or provide financing to households for home purchase.

In 2016 and 2015, the Group did not conduct any material renegotiation or restructuring of its debit balances, as those terms are defined in the applicable legislation.

b) Settlement risk exposure

Settlement risk is the risk arising from counterparties not fulfilling or failing to settle transactions.

The Group has developed a procedure for limits and calculating settlement risk exposure by counterparty. The settlement/counterparty limits are assigned in accordance with the internal methodology described above. The use of the limits is calculated using in-house methodologies approved by the Group. The calculation is performed by the Risk Control Unit. Automatic delivery-versus-payment (collateralised order) procedures are also established for counterparties identified as sensitive by the Bank's Risk Committee.

c) Interest rate risk exposure

The Group is not exposed to a significant interest rate risk since its main consolidated balance sheet aggregates are on demand or with a short maturity.

d) Liquidity risk exposure

Liquidity risk is the risk that the Group might not have sufficient liquidity to meet its payment commitments.

The Risk Control Unit has developed a methodology to dynamically calculate the exposure to liquidity risk through static and dynamic ratios, set a limit in terms of a liquidity buffer and has supplemented this with limits by underlying and counterparty. The Group also periodically performs stress scenario analyses and uses back-testing to measure these scenarios. Also, the Bank's Board of Directors has established a contingency procedure to cater for possible losses from this type of risk.

To supplement the monitoring performed by the Risk Control Unit, the Settlement Department of the Transactions Area performs ongoing follow-up of order settlement processes in each of the currencies in which the Group operates, thus providing twofold control of the Group's liquidity.

e) Operational risk exposure

Operational risk is defined as "the risk of loss resulting from deficiencies or failures of internal processes, human resources or systems or that arising due to external causes". This risk relates to events of a purely operational nature, which differentiates it from market or credit risk.

The Group's aim in operational risk control and management is to identify, prevent, measure, mitigate and monitor this risk. The priority, therefore, is to identify and eliminate any clusters of operational risk.

In order to reduce this risk, the main operating processes are analysed periodically. These processes are contained in procedures manuals and include the measures required to perform a comprehensive operational control.

The Group considers insurance as a key factor in operational risk management. In 2016 the professional indemnity insurance and employee fidelity insurance policies were renewed.

f) Exposure to other market risks

In addition to the risks above, the Group is exposed to the structural exchange rate risk arising from its foreign currency transactions. This risk is monitored and managed on a daily basis and the impact on the consolidated income statement is limited by setting maximum exposure limits and applying procedures subsequently to ensure that these limits are not exceeded, and by using hedges.

g) Risk concentration

The detail, by activity and geographical area of the counterparty, of the concentration of the Bank's risk for being the most representative of the Group (see Note 3) at 31 December 2016 and 2015 is as follows:

31 December 2016

	2016				
	Thousands of Euros				
	Spain	Other EU Countries	America	Rest of the World	Total
Central Banks and Credit Institutions	269,646	373,542	68,836	10,690	722,714
Public sector – Central government	-	10,018	-	-	10,018
Other financial institutions	57	10,705	4	159	10,925
Non-financial companies and individual entrepreneurs-	140	87	-	50	277
<i>Other purposes – SMEs and individual entrepreneurs</i>	140	87	-	50	277
Other households and NPISH- (*)	402	13	-	-	415
<i>Consumer loans</i>	390	-	-	-	390
<i>Other purposes</i>	12	13	-	-	25
Total (**)	270,245	394,365	68,840	10,899	744,349

(*) NPISH: non-profit institutions serving households.

(**) For the purposes of this table, the definition of risk includes the following items in the Bank's public balance sheet: loans and advances to credit institutions, loans and advances to customers, debt instruments, equity instruments, trading derivatives, hedging derivatives, investments and contingent liabilities.

31 December 2015

	2015				
	Thousands of Euros				
	Spain	Other EU Countries	America	Rest of the World	Total
Central Banks and Credit Institutions	542,257	118,079	1,456	15,719	677,511
Public sector – Central government	10,004	10,003	-	-	20,007
Other financial institutions	77	6,529	416	627	7,649
Non-financial companies and individual entrepreneurs-	130	6	-	115	251
<i>Other purposes – SMEs and individual entrepreneurs</i>	130	6	-	115	251
Other households and NPISH- (*)	260	39	-	-	299
<i>Consumer loans</i>	254	28	-	-	282
<i>Other purposes</i>	6	12	-	-	17
Total (**)	552,728	134,656	1,872	16,461	705,717

(*) NPISH: non-profit institutions serving households.

(**) For the purposes of this table, the definition of risk includes the following items in the Bank's public balance sheet: loans and advances to credit institutions, loans and advances to customers, debt instruments, equity instruments, trading derivatives, hedging derivatives, investments and contingent liabilities.

31 December 2016

	2016			
	Thousands of Euros			
	Cantabria	Catalonia	Madrid	Total Spain
Central Banks and Credit Institutions	86,450	140,039	43,157	269,646
Public sector – Central government	-	-	-	-
Other financial institutions	-	-	57	57
Non-financial companies and individual entrepreneurs-	-	-	140	140
<i>Other purposes – SMEs and individual entrepreneurs</i>	-	-	140	140
Other households and NPISH:(*)	-	-	402	402
<i>Consumer loans</i>	-	-	390	390
<i>Other purposes</i>	-	-	12	12
	86,450	140,039	43,756	270,245

(*) NPISH: Non-profit institutions serving households

31 December 2015

	2015					
	Thousands of Euros					
	Balearic Islands	Cantabria	Castilla y León	Catalonia	Madrid	Total Spain
Central Banks and Credit Institutions	5	499,880	-	2	42,370	542,257
Public sector – Central government	-	-	-	-	10,004	10,004
Other financial institutions	-	-	-	-	77	77
Non-financial companies and individual entrepreneurs:	-	-	-	-	130	130
<i>Other purposes – SMEs and individual entrepreneurs-</i>	-	-	-	-	130	130
Other households and NPISH:(*)	-	-	2	-	258	260
<i>Consumer loans</i>	-	-	2	-	252	254
<i>Other purposes</i>	-	-	-	-	6	6
	5	499,880	2	2	52,839	552,728

(*) NPISH: Non-profit institutions serving households

31. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 1-b). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I

Subsidiaries composing the Allfunds Bank Group at 31 December 2016 and 2015

31 December 2016

Entity	Location/ Registered Office	Line of Business	Audit/ Review	Ownership Interest	Thousands of Euros		
					Company Data (*)		
					Share Capital	Reserves	Profit (Loss) 2016
Allfunds Bank International, S.A. (**)	Luxembourg	Institutional brokerage services for the purchase and sale of units in collective investment undertakings	Audited	100%	15,000	9,948	4,917
Allfunds Nominee, Limited	United Kingdom	Asset holding	Not audited	100%	1	-	-
Allfunds Bank Brasil Representações Ltda.	Brazil	Representation services	Not audited	100%	225	(24)	(38)
Allfunds International, Schweiz AG	Switzerland	Distribution of collective investment undertakings	Limited review	100%	2,060	1,684	231

(*) These entities' financial statements for 2016 have not yet been approved by their sole shareholder. However, the Bank's directors consider that the aforementioned financial statements will be approved without any changes.

(**) Through this Company, a 100% ownership interest is held in the share capital of Allfunds International, Schweiz AG así como un 0,01% de Allfunds Bank Brasil Representações LTDA.

31 December 2015

Entity	Location/ Registered Office	Line of Business	Audit/ Review	Ownership Interest	Thousands of Euros		
					Company Data		
					Share Capital	Reserves	Profit (Loss) 2015
Allfunds Bank International, S.A. (**)	Luxembourg	Institutional brokerage services for the purchase and sale of units in collective investment undertakings	Audited	100%	15,000	4,062	5,886
Allfunds Nominee, Limited	United Kingdom	Asset holding	Not audited	100%	1	-	-
Allfunds Bank Brasil Representações Ltda.	Brazil	Representation services	Not audited	100%	225	-	(24)
Allfunds International, Schweiz AG	Switzerland	Distribution of collective investment undertakings	Limited review	100%	2,060	544	1,140

(**) Through this Company, a 100% ownership interest is held in the share capital of Allfunds International, Schweiz AG así como un 0,01% de Allfunds Bank Brasil Representações LTDA.

Appendix II

Annual banking report

This information was prepared in compliance with Article 89 of Directive 2013/36/EU of the European Parliament and Council, of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (commonly known as CRD IV) and its transposition to Spanish domestic legislation in accordance with Article 87 and Transitional Provision Twelve of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, published in the Official State Gazette of 27 June 2014.

Pursuant to the aforementioned Article, from 1 January 2015, credit institutions must for the first time publish, specifying, by country in which they are established, the following information on a consolidated basis for the last complete financial year:

- a. Name, nature and geographical location of the activity.
- b. Turnover.
- c. Number of employees on a full-time equivalent basis.
- d. Profit before taxes.
- e. Income tax.
- f. Subsidies or state aid received.

Pursuant to the above, Allfunds Banks, S.A. (the "Bank") hereby provides the required information mentioned above.

- Name, nature and geographical location of the activity.

This information is available in Notes 1 and 3 and in Appendix I of the consolidated financial statements of the Allfunds Bank Group for the year ended 31 December 2016 and prior years, which give details of the companies that operate in each jurisdiction, including their name, geographical location and the nature of their activity, amongst other things. The financial statements for the previous years are available to the public on the Bank's website at the following address:

<https://www.allfundsbank.com/lr/web/public/company-information>

As shown in the information indicated above, the main activity carried on by the Allfunds Bank Group in the various jurisdictions in which it operates is the provision of investment services and, specifically, the marketing of units/ shares in collective investment undertakings.

- The information corresponding to turnover and the number of employees on an equivalent full-time basis is shown below, together with some explanatory notes on the basis of presentation of that information:

Jurisdiction	Millions of Euros	No. of Employees on a Full-Time Equivalent Basis
	Turnover	
Chile	-	6
Dubai (EAU)	-	4
Colombia	-	2
Singapore	-	7
Spain	93	191
Italy	47	45
Luxembourg	16	25
United Kingdom	10	41
Switzerland	2	6
Total	168	327
Consolidation adjustments	(12)	
Allfunds Bank Group	156	

For the purposes of this report, turnover is considered to be gross income, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

The data on turnover per country, shown in the previous table, was obtained from the statutory accounting records for 2016 of the Group's companies with the corresponding geographic location and was converted into euros.

"Consolidation adjustments" in the above table includes the necessary adjustments in order to convert the above aggregate information into information on the consolidated Group and it therefore includes adjustments for uniformity and to eliminate transactions between Group companies.

The number of employees on a full time equivalent basis was obtained from the headcount of each company/country at 2016 year-end.

The consolidated income statement for the year ended 31 December 2016 includes profit before tax for the Allfunds Bank Group of EUR 96 million and income tax of EUR 27 million:

Jurisdiction	Millones de Euros	
	Profit Before Tax	Income Tax
Spain	58	17
Italia	34	10
Luxembourg	6	-
United Kingdom	(1)	-
Singapore	(1)	-
Total	96	27
Consolidation adjustments	-	
Consolidated Allfunds Bank Group	96	

At 31 December 2016, the Group's return on assets (ROA) was estimated at 7.16%.

The Allfunds Bank Group did not receive any public aid in 2016.

Allfunds Bank Group

Consolidated Directors' Report for the year ended
31 December 2016

Allfunds Bank Group

The consolidated financial statements of the ALLFUNDS BANK Group ("the Group") for 2016 consist of the consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements, which are audited by Deloitte, S.L. The accompanying directors' report summarises the main characteristics of the Group's performance and outlines the most significant future prospects.

Directors' Report for 2016

In 2016 the Group obtained net profit amounting to EUR 69,074 thousand, down 9.09% on the previous year. Fee and commission income was the largest revenue item. It fell by 0.87% in net terms due to the decline in the margin obtained on fees and commissions received from investment fund management companies and fees and commissions assigned to the Bank's customers, offset partially by the increase in the volume of assets under management compared with 2015.

The detail of customer positions, by geographical area, is as follows:

Geographical Area	Millions of Euros
Continental Europe, except Spain and Portugal	143,141
Spain and Portugal	78,898
UK and Ireland	24,065
Latin America	4,153
Middle East	2,821

If only the Spanish market is considered, the Group's share of the volume traded in the market for foreign collective investment undertakings (CIUs) was 59.4% at 31 December 2016.

The foreign CIU market in Spain had increased by 5.9% to EUR 125,000 million at 2016 year-end, compared with EUR 118,000 million at 2015 year-end. Outside the Spanish market, the 30.4% share of the Italian market at 31 December 2016 was also noteworthy.

Economic environment

In the last few months of 2016, the rate of growth in the world economy was consolidated, due mainly to the improvement in the advanced economies. Despite this, the medium-term outlook for 2017 continues to point to relatively moderate rates. In the advanced economies, the capacity of an expansionary monetary policy to sustain by itself the path of economic growth is showing its limitations, in view of the scant contribution of the various countries with other types of economic policy.

Among the emerging economies, recent developments show variations by country, reflecting factors such as the dependence on external funding, the scope of manoeuvre available for economic policies and each country's status as a producer or consumer of raw materials against a backdrop of rising prices for this type of good.

In this type of economy, a certain heterogeneity in business performance could be observed in the summer months. In China, for example, government support measures helped to sustain growth, which held up at 6.7% year on year, while no clear pattern could be seen in the rest of Asia. In addition, economic activity in the new EU Member States that do not belong to the eurozone saw a quite generalised slowdown in the last few months of 2016.

Despite the improvement in the performance observed in the short-term outlook for the economy at global level, the last phase of 2016 was characterised by the appearance of various risk factors. In particular, the uncertainty regarding the future course of world economic policy increased considerably, particularly with respect to the US economy, both in the area of commercial relations and in fiscal policy. Also, a possible intensification of the upward trend in long-term interest rates and the impact thereof on prices in other financial markets could damage macrofinancial stability, in particular that of the emerging economies, which have a high level of US dollar-denominated debt.

Despite the stagnation in interest rates over the next two years according to the latest forecasts in Japan, with the six-month TIBOR set at 0.1 pps for 2017 and 2018, it is possible that in the eurozone three-month EURIBOR will rise significantly to -0.15 pps in 2017 and 0.05 pps in 2018. It is also expected that interest rates on US federal funds will reach 1.2% in 2017 and 1.7% in 2018.

The inflation rate rose slightly in 2016, in general terms, due, among other factors, to the rise in oil prices in the last few weeks of the year as a consequence of the agreement between the large producers to cut supply. In view of the strength of investment in infrastructure and property in China and the expectation of fiscal expansion in the US, prices of base metals also strengthened. As raw material prices bottomed out, general inflation rates recovered in the advanced economies in the last few months of the year, but underlying inflation rates did not change significantly and, in general, remained below inflation targets.

Growth outlook

The outlook for global GDP is for growth of 3.4% in 2017 and 3.6% in 2018, which reflects signs of economic stability, rather than solid sustained recovery in global demand. The slight rise in growth in Gross Domestic Product (GDP) of 1.9% projected for developed countries in 2017, two tenths more than in 2016, and of 2.0% in 2018, is explained mainly by the end of the instability in the US and the macroeconomic policies implemented in Japan. The projection for the US for the next two years is for growth of 2.3% in 2017 and 2.5% in 2018.

Economic activity in the eurozone quickened in the latter part of 2016. Accordingly, in the current context characterised by high levels of economic and political uncertainty, the bases sustaining growth in the area are still fragile and rest, to a considerable extent, on monetary policy actions, since the positive stimuli brought about by the fall in oil prices and the depreciation of the euro's effective exchange rate since mid-2014 were dispelled. This diagnosis is reflected in the macroeconomic projections for the area, which anticipate a stable and moderate growth trend for the area as a whole, with growth rates of 1.6 % in 2017 and of 1.5% in 2018 and 2019. Turning to Spain, GDP growth will foreseeably be above the eurozone average in 2017 and 2018, at close to 2.3% and 2.1%, respectively, but is estimated to be below the average for 2016, at 2.9%.

The emerging economies are expected to grow by 4.5% in 2017 and by 4.8% in 2018, compared to the 4.1% projected for 2016, since in recent years the region has absorbed the sharp declines in exchange rates that certain countries experienced in 2014 and 2015. Among developing countries, raw material

exporters are also expected to see growth as raw material prices stabilise and the inflationary pressures caused by sharp depreciations in exchange rates are reduced.

Transaction performance

In 2016, the focus remained on the objectives set in previous years:

- To support Allfunds International, S.A. in its objective to complement the Bank in countries where it does not have a permanent establishment.
- The Monetary Authority of Singapore granted the Bank a license to provide investment services on 16 May 2016. The new branch in Singapore was formally constituted on 8 March 2016.
- To strengthen its commercial presence in the Latin American area through the new representative office in Bogotá, and increase its customer base in the region.
- To continue to increase the number of distribution agreements entered into with customers in all the markets in which the Group operates. In 2016 the number of commercial agreements increased by 52.
- To continue to enter into agreements with the world's foremost management companies in order to be able to offer customers a wider range of products. In 2016, more than 540 automated accesses were made through management companies.
- To boost commercial activity in those European markets where the Bank's presence is not significant (the UK market, Switzerland, Central Europe and the Nordic markets).

Performance of the distribution channels

The distribution channels operated by the Bank, which play a highly significant role in obtaining its revenue, are as follows:

- Direct fund distribution (Retail and Portfolios) accounted for 51.5%, compared with 51% in 2015.
- The CIU channel, comprising funds of funds, open-end investment companies (SICAVs) and insurance, represented 47.9% of the total traded volume (2015: 48.6%).
- Structured products, including underlying investment funds, stood at 0.6%, compared to 0.4% in 2015.

Consolidated balance sheet

Fees and commissions receivable and payable at 31 December 2016 amounted to EUR 181,335 thousand and EUR 155,848 thousand, a decrease of 3.30% and an increase of 0.30%, respectively, on 2015.

At 31 December 2016, the Group's total assets amounted to EUR 937,912 thousand, an increase of 4.41% with respect to 2015 year-end.

As in previous years, the balances of the (credit institutions) accounts were the main item on the asset side of the consolidated balance sheet.

The balances of credit institutions amounted to EUR 539,483 thousand, i.e. 15.49% less than the previous year.

Intangible assets (all relating to software and licenses) amounted to EUR 5,099 thousand, up 29.45% year on year. This change was mainly a result of lower investment in IT development, together with greater software maintenance costs.

Tangible assets (furniture, computer equipment and fixtures) net of depreciation, amounted to EUR 6,616 thousand, representing a 65.28% increase, as result of the refurbishment of the new branches in London, Milan and Luxembourg.

Customers may open current accounts at the Bank for the purpose of receiving an enhanced brokerage service in relation to the purchase and sale of units in CIUs. At 31 December 2016, the balance held in these accounts amounted to EUR 466,957 thousand, i.e. 22.22% more than the previous year. This increase was due mainly to the increased current account balances at the Madrid, Milan and Luxembourg branches.

The amount of the transactions arranged for the purchase and sale of CIU units not yet settled recognised on the liability side of the consolidated balance sheet rose by 28.95% on 2015, as a result of the higher volume of brokered transactions. At 31 December 2016, this amount was EUR 94,381 thousand.

Earnings

The Group obtained net profit of EUR 69,074 thousand in 2016, down 9.09% on 2015.

The detail by company, without taking intra-Group transactions into consideration, is as follows:

	Thousands of Euros
Allfunds Bank, S.A.	63,975
Allfunds Bank International, S.A.	4,924
Allfunds International, Schweiz AG	232
Allfunds Bank Brasil Representações Ltda.	(38)

Net interest income declined 74.32% on 2015 to EUR 989 thousand, as a result of the lower return earned due to the sharp drop in interest rates.

Net fee and commission income amounted to EUR 154,513 thousand, which represents a fall of 0.87% on 2015. 86.88% of these fees and commissions in 2016 and 85.43% in 2015 related to brokerage in the sale of shares and units in international CIUs.

Administrative costs, which comprise staff costs and other general administrative expenses, amounted to EUR 57,472 thousand, 19.44% more than in 2015. Most of this increase is due to the increased systems costs, the new hires, the increase in travel aimed at boosting the entity's activities.

Off-balance-sheet figures

As in previous years, the main activity carried on by the Bank is the provision of brokerage services in the distribution of foreign CIUs, which it performs without taking ownership of the assets in which the investments are made. As a result, none of the customers' assets are recognised on the Bank's balance sheet.

At 31 December 2016, the volume of customer funds intermediated amounted to EUR 253,162 million, which represents a 17.35% increase.

Share capital and treasury shares

At 31 December 2016, the Bank's share capital amounted to EUR 27,040,620, represented by 901,354 fully subscribed and paid registered shares of EUR 30 par value each.

At the date of this report, the Bank's owners are AFB SAM Holding, S.L. (50%) and Eurizon Capital SGR S.p.A. (50%).

No transactions involving treasury shares were carried out in 2016.

Research and development policy

The Bank initiated new technological developments in the computer platform in 2016 with the object of providing solutions to new business needs in order to enhance the service to current and/or new customers and of adapting to the new regulatory requirements.

The most noteworthy developments include the following:

- Progress in the project to develop the exchange-traded fund (ETF) investment business.
- Development of the open internet services platform (API platform).
- Construction of customised portals for customers (Moon).
- Software solution for the control of payments for compliance activities.
- Redesign of the information portal for management companies.
- Implementation of various technological developments in Switzerland.

Staff

The main data in this connection are disclosed in Note 25.1 to the accompanying consolidated financial statements.

Financial risk management policies

The main risks arising from the Bank's activities are: operational risk, settlement risk, liquidity risk, credit risk, interest rate risk and market risk. The Bank has established certain procedures in order to identify,

evaluate, monitor, manage, mitigate and validate these risks as part of the risk aversion policy established by the Bank's most senior governing body, namely its Board of Directors.

For this purpose, general management provides the Bank with the human and technological resources it needs in order to develop risk management best practices.

The actions undertaken by the Bank with regard to the management of these risks are described in Note 30 to the financial statements.

Outlook

The Group's management policy for 2017 includes the following aims:

- - Continue to increase the number of customers, the trading volume and the percentage market share in the marketing of foreign CIUs in the various markets in which it has a presence.
- Increase the presence in new markets classified strategic in the Bank's business plan (the UK market, Benelux, the Nordic countries and Central Europe).

Initiate active commercial activity in the Asian markets (mainly Singapore, Hong Kong and Taiwan), supported by the recent inauguration of the Singapore branch.
- Open a representative office in Brazil in order to obtain a larger market share and to provide a better service to customers in the region.

The Bank's directors consider that the current business plan will enable the Bank to meet the budgets agreed upon for 2017 in spite of the economic turbulence buffeting the markets in which it operates.

Environment

In view of the Group's operations, there are no environmental implications in this respect (see Note 1-g to the consolidated financial statements).

Average payment period to suppliers

The average period of payment to suppliers in 2016 was 26 days, which was less than the maximum period established in the applicable legislation (see Note 14.3).

Events after the reporting period

On 6 March 2017, the Bank's current shareholders (AFB SAM Holdings, S.L. and Eurizon Capital SGR S.p.A.) entered into a share purchase and sale agreement with ADUBALA ITG, S.L.U. (which is indirectly owned, in turn, by funds managed or advised by Hellman & Friedman and GIC).

The sale of the Bank's shares is subject to meeting certain conditions (including the authorisation -non-opposition- of the European Central Bank to the direct acquisition of the shares, the non-opposition of the European Central Bank to the acquisition of an indirect ownership interest in Allfunds Bank International, S.A., the approval of the Monetary Authority of Singapore for the obtainment of control of the Bank's branch in Singapore and antitrust approval from the European Union and Brazil) and, accordingly, the sale will not take place until all these conditions are met.