

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

Consolidated Financial Statements
and Directors' Report for the year
ended 31 December 2018, 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 Sole Shareholder of Allfunds Bank Group (Sole-Shareholder Company),

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Allfunds Bank, S.A. (Sole-Shareholder Company) (the Bank) and its subsidiaries composing, together with the Bank, the Allfunds Bank Group (the Group), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2018, and its consolidated results and its consolidated cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Group (identified in Note 1-b to the accompanying consolidated financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the consolidated financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

Key Audit Matters

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

Recognition of fee and commission income

Description

As indicated in Note 22 to the accompanying consolidated financial statements, in 2018 the Group recognised fee and commission income amounting to EUR 1,277,608 thousand under "Fee and Commission Income" in relation to the fees and commissions received in connection with the marketing of investment funds in the year. As indicated in Note 2-I) to the accompanying financial statements, the aforementioned income is calculated by applying the agreed-upon percentage to the daily volume of the investment fund units held for the account of the Group's customers.

The income described represents 95% of the total income earned by the Group in 2018. In light of the representativeness of the aforementioned income, we consider this matter to be key in our audit.

Procedures applied in the audit

In order to address this key matter, our work included the performance of audit procedures to evaluate the operating effectiveness of the relevant controls (including information system controls) supporting the completeness of the fees and commissions, as well as the fee and commission accounting and recognition procedure, for which purpose we involved our internal technology and systems experts.

Also, our work included, among others, the following substantive procedures: (i) third-party confirmations based on a sample of management companies to validate the amount of fee and commission income; (ii) analysis, based on a sample of investment agreements entered into during the last quarter of 2018, of the correct recognition of the fee and commission income, pursuant to the terms and conditions and obligations established in the agreements with the management companies; and (iii) recalculation tests, performed on the sample of agreements indicated in point (ii), of the fee and commission income earned in 2018.

Lastly, we checked that the disclosures included in the notes to the accompanying consolidated financial statements in connection with this matter are in conformity with the requirements of the applicable accounting regulations.

Emphasis of Matter

We draw attention to Note 2-j to the accompanying consolidated financial statements, 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 unrelated to the 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 3,062 thousand).

Also, Note 2-j indicates that on 13 January 2017, the group of defendants, including the Bank, filed an application for the dismissal of the claim. As a result of this application and of the response to it filed by the claimant and the subsequent reports requested by the court, on 6 August 2018 the court handed down a decision on some matters included in the defendants' application for the dismissal of the claimant's allegations, and requested that the parties provide the court with guidance on the most efficient manner of proceeding on the remaining material matters. To this end, the claimant and the defendants negotiated and endorsed a procedure that would enable the court to decide the aforementioned material matters filed in the application for dismissal. On 20 September 2018, the court approved the procedure agreed upon by the defendants and the claimant. On 6 December 2018, the court found in favour of the defendants with respect to their contractual claims, except in the cases in which the defendant was irrefutably aware that the applicable net asset value at the time the redemptions were made was erroneous due to the investments of the funds held through Madoff; in this situation, the claimant could take action against the defendants.

On 22 March 2019, the claimant submitted to the Court of New York the documentation completing the claims against each defendant, including the Bank. These claims must be accepted by the court, and in the event that it does not accept them, the claimant will have 21 days to appeal against the court decision of 6 December 2018.

The Bank's directors consider that, ultimately, the Group not have to bear the possible adverse consequences of the aforementioned procedure, since they consider that it acted merely as an intermediary without benefiting, on any occasion, from the redemptions made, and that it was not irrefutably aware that the applicable net asset value at the time the redemptions were made was erroneous, and, accordingly, no provision was recognised in this connection at 31 December 2018. Our opinion is not modified in respect of this matter.

Other Information: Consolidated Directors' Report

The Other Information comprises only the consolidated directors' report for 2018, the preparation of which is the responsibility of the Bank's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated directors' report. Our responsibility relating to the consolidated directors' report, in accordance with the applicable audit regulations, consists of evaluating and reporting on whether the consolidated directors' report is consistent with the financial statements, based on our knowledge of the Group obtained in the audit of those consolidated financial statements and excluding any information other than that obtained as evidence during the audit. Also, our responsibility consists of evaluating and reporting on whether the content and presentation of the consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described in the preceding paragraph, the information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors and of the Audit and Risk Committee of the Bank for the Consolidated Financial Statements

The Bank's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the Group's consolidated equity, consolidated financial position and consolidated results in accordance with the regulatory financial reporting framework applicable to the Group in Spain, 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.

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

The Bank's audit and risk committee is responsible for overseeing the process involved in the preparation and presentation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix I to this auditor's report. This description, which is on pages 6 and 7 of this document, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Bank's Audit and Risk Committee


The opinion expressed in this report is consistent with the content of our additional report to the Bank's audit and risk committee dated 25 April 2019.

Engagement Period

The Bank's sole shareholder, per the minutes of resolutions dated 4 June 2018, appointed us as auditors for a period of one year from the year ended 31 December 2017.

Previously, we were designated pursuant to a resolution of the Universal Annual General Meeting for the period of one year and have been auditing the consolidated financial statements uninterruptedly since the year ended 31 December 2001, taking into account the content of Article 17.8 of Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities.

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



Ignacio Gutiérrez
Registered in ROAC under no. 21412
25 April 2019

Appendix I to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's directors.
- Conclude on the appropriateness of the use by the Bank's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

We communicate with the Bank's audit and risk committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Bank's audit and risk committee with a statement that we have complied with relevant ethical requirements, including those regarding independence, and we have communicated with it to report on all matters that may reasonably be thought to jeopardise our independence, and where applicable, on the related safeguards.

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

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

Translation 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.

ALLFUNDS BANK GROUP
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018 AND 2017
(Thousands of Euros)

ASSETS	Notes	2018	2017 (*)	LIABILITIES AND EQUITY	Notes	2018	2017 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS	6	711,426	737,891	LIABILITIES			
FINANCIAL ASSETS HELD FOR TRADING:	9 and 19	353	479	FINANCIAL LIABILITIES HELD FOR TRADING:	9 and 19	213	340
Derivatives		353	479	Trading Derivatives		213	340
<i>Memorandum items: Lent or delivered as guarantee with disposal or pledge rights</i>		-	-	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
FINANCIAL ASSETS NOT DESIGNATED FOR TRADING COMPULSORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	7	384	193	<i>Memorandum item: Subordinated liabilities</i>		-	-
Equity Instruments		384	193	FINANCIAL LIABILITIES AT AMORTISED COST:	14	897,922	967,725
<i>Memorandum items: Lent or delivered as guarantee with disposal or pledge rights</i>		-	-	Deposits-		730,235	796,309
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-	Credit institutions		278,137	179,532
<i>Memorandum items: Lent or delivered as guarantee with disposal or pledge rights</i>		-	-	Customers		452,098	616,777
FINANCIAL ASSETS AT FAIR VALUE THROUGH ACCUMULATED OTHER COMPREHENSIVE INCOME:		-	-	Other financial liabilities		167,687	171,416
<i>Memorandum items: Lent or delivered as guarantee with disposal or pledge rights</i>		-	-	<i>Memorandum item: Subordinated liabilities</i>		-	-
FINANCIAL ASSETS AT AMORTISED COST:	8	383,886	404,676	HEDGING DERIVATIVES		-	-
Loans and advances-		383,886	404,676	FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
To Central Banks		6,508	6,066	LIABILITIES UNDER INSURANCE AND REINSURANCE CONTRACTS		-	-
To Credit institutions		344,616	395,760	PROVISIONS		-	-
To Customers		32,762	2,850	TAX LIABILITIES:	12	4,456	8,713
<i>Memorandum items: Lent or delivered as guarantee with disposal or pledge rights</i>		-	-	Current		2,892	8,713
HEDGING DERIVATIVES		-	-	Deferred		1,564	-
FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGE OF INTEREST RATE RISK		-	-	OTHER LIABILITIES	13	272,306	272,752
INVESTMENTS IN JOINT VENTURES AND ASSOCIATES		-	-	LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE		-	-
Joint ventures		-	-	TOTAL LIABILITIES		1,174,897	1,249,530
Associates		-	-				
ASSETS UNDER INSURANCE AND REINSURANCE CONTRACTS		-	-	EQUITY:			
TANGIBLE ASSETS:	10	8,931	6,961	SHAREHOLDERS FUNDS:	15	272,312	215,155
Property, plant and equipment – For own use		8,931	6,961	Capital	16	27,041	27,041
<i>Memorandum items: other assets leased out under finance lease</i>		-	-	Retained earnings	17	188,114	129,478
INTANGIBLE ASSETS:	11	25,497	7,541	Profit or loss attributable to owners of the parent		86,157	75,258
Goodwill		6,065	-	Less: Interim dividends	3	(29,000)	(16,622)
Other intangible assets		19,432	7,541	ACCUMULATED OTHER COMPREHENSIVE INCOME	7	44	(69)
TAX ASSETS:	12	8,242	486	Items not subject to reclassification to income statement		-	-
Current		7,571	17	Items that may be reclassified to profit or loss-		44	(69)
Deferred		671	469	Foreign currency translation		44	(69)
OTHER ASSETS:	13	308,534	306,389	MINORITY INTERESTS [NON CONTROLLING INTERESTS]		-	-
Rest		308,534	306,389	TOTAL EQUITY		272,356	215,086
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE		-	-	TOTAL LIABILITIES AND EQUITY		1,447,253	1,464,616
TOTAL ASSETS		1,447,253	1,464,616				
MEMORANDUM ITEMS							
Loan commitments given		-	-				
Financial guarantees given		-	-				
Other commitments given	18	53,877	53,250				

(*) 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 2018.

Translation 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.

ALLFUNDS BANK GROUP
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017
(Thousands of Euros)

	Notes	Income/(Expenses)	
		2018	2017 (*)
INTEREST INCOME	20	2,118	799
Financial assets at fair value through changes in other comprehensive income		-	-
Financial assets at amortised cost		2,118	799
Remaining interest income		-	-
INTEREST EXPENSES	21	(1,527)	(554)
EXPENSES ON SHARE CAPITAL REPAYABLE ON DEMAND		-	-
NET INTEREST INCOME		591	245
DIVIDEND INCOME		-	-
FEE AND COMMISSION INCOME	22	1,333,535	1,020,444
FEE AND COMMISSION EXPENSES	23	(1,116,115)	(831,214)
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	140	139
Reclassification of financial assets from fair value with changes in other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		140	139
GAINS OR LOSSES ON FINANCIAL ASSETS NOT HELD FOR TRADING DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET		(352)	-
Reclassification of financial assets from fair value with changes in other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		(352)	-
GAINS OR LOSSES FROM HEDGE ACCOUNTING, NET		-	-
EXCHANGE DIFFERENCES, NET		75	80
OTHER OPERATING INCOME	26	5,099	583
OTHER OPERATING EXPENSES	26	(1,891)	(670)
GROSS INCOME		221,082	189,607
ADMINISTRATION COSTS:	25	(89,832)	(75,021)
Personnel expenses		(47,079)	(37,067)
Other administrative expenses		(42,753)	(37,954)
DEPRECIATION	10 and 11	(5,908)	(2,439)
PROVISIONS OR REVERSAL PROVISIONS		-	-
IMPAIRMENT OR REVERSAL OF IMPAIRMENT OF THE VALUE AND PROFIT AND LOSSES BY THE MODIFICATION OF CASHFLOWS OF FINANCIAL ASSETS NOT VALUED AT FAIR VALUE WITH	8	(404)	375
Financial assets at amortised cost		(404)	375
NET OPERATING INCOME		124,938	112,522
IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS OF INVESTMENT IN JOINT VENTURES AND ASSOCIATES		-	-
IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON NON-FINANCIAL ASSETS		-	-
GAINS/(LOSSES) ON DERECOGNIZED OF NON FINANCIAL ASSETS, NET	10	(7)	-
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		124,931	112,522
TAX EXPENSE OR INCOME RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATION	12	(38,774)	(37,264)
PROFIT FROM CONTINUING OPERATIONS		86,157	75,258
PROFIT FROM DISCONTINUED OPERATIONS (net)		-	-
PROFIT		86,157	75,258
Attributable to owners of the parent		86,157	75,258
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 income statement for 2018.

Translation 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.

ALLFUNDS BANK GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

A) CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

(Thousands of Euros)

	Income/(Expenses)	
	2018	2017 (*)
PROFIT RECOGNISED IN INCOME STATEMENT	86,157	75,258
OTHER RECOGNIZED INCOME (EXPENSES)	113	(271)
Items not subject to reclassification to income statement:	-	-
Actuarial gains and losses from defined benefit pension plans	-	-
Non-current assets and disposal groups of elements held for sale	-	-
Changes in fair value of the equity instruments valued at fair value with changes in other comprehensive income	-	-
Gains or (-) losses resulting from the accounting for hedges of equity instruments measured at fair value with changes in other comprehensive income, net.	-	-
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (item hedged)	-	-
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (hedging instrument)	-	-
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	-	-
Income tax relating to items not subject to reclassification to income statement	-	-
Items subject to reclassification to income statement:	113	(271)
Hedge of net investments in foreign operations (effective portion)	-	-
Foreign currency translation	161	(359)
<i>Valuation gains or losses from currency translation taken to equity</i>	<i>161</i>	<i>(359)</i>
Cash flow hedges	-	-
Hedge instruments (not designated elements)	-	-
Debt instruments held at fair value through accumulated other comprehensive income:	-	(27)
<i>Valuation gains or losses taken to equity</i>	<i>-</i>	<i>(27)</i>
Non-current assets and disposal groups classified as held for sale	-	-
Income tax	(48)	115
TOTAL RECOGNISED INCOME AND EXPENSE:	86,270	74,987
Attributable to the parent company	86,270	74,987
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 2018.

Translation 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.

ALLFUNDS BANK GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017 (cont.)

B) CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY

(Thousands of Euros)

2018

	Total Equity						
	Shareholders' Funds				Accumulated other Comprehensive Income	Non-Controlling Interests	Total Equity
	Paid up Capital	Retained Earnings	Profit or Loss	Interim Dividends			
ENDING BALANCE AT 31 DECEMBER 2017	27,041	129,478	75,258	(16,622)	215,155	(69)	215,086
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-
ADJUSTED BEGINNING BALANCE AT 1 JANUARY 2018	27,041	129,478	75,258	(16,622)	215,155	(69)	215,086
Total income/expense recognized	-	-	86,157	-	86,157	113	86,270
Other changes in equity:	-	58,636	(75,258)	(12,378)	(29,000)	-	(29,000)
Dividend distribution (Note 4)	-	-	-	(29,000)	(29,000)	-	(29,000)
Transfers between total equity entries	-	58,636	(75,258)	16,622	-	-	-
ENDING BALANCE AT 31 DECEMBER 2018	27,041	188,114	86,157	(29,000)	272,312	44	272,356

2017 (*)

	Total Equity						
	Shareholders' Funds				Accumulated other Comprehensive Income	Non-Controlling Interests	Total Equity
	Paid up Capital	Retained Earnings	Profit or Loss	Interim Dividends			
ENDING BALANCE AT 31 DECEMBER 2016	27,041	124,379	69,074	(47,117)	173,377	202	173,579
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-
ADJUSTED BEGINNING BALANCE AT 1 JANUARY 2017	27,041	124,379	69,074	(47,117)	173,377	202	173,579
Total income/expense recognized	-	-	75,258	-	75,258	(271)	74,987
Other changes in equity:	-	5,099	(69,074)	30,495	(33,480)	-	(33,480)
Transfers between total equity entries	-	-	(16,858)	(16,622)	(33,480)	-	(33,480)
Dividend distribution	-	5,099	(52,216)	47,117	-	-	-
ENDING BALANCE AT 31 DECEMBER 2017	27,041	129,478	75,258	(16,622)	215,155	(69)	215,086

(*) 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 2018.

Translation 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.

ALLFUNDS BANK GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS **FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017** (Thousands of Euros)

	2018	2017 (*)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the year	86,157	75,258
Adjustments to obtain the cash flows from operating activities-		
Depreciation and amortisation	5,908	2,439
Other adjustments	38,916	36,809
Profit adjusted	130,981	114,506
Net increase/decrease in operating assets:		
Financial assets held for trading	126	160
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	(78)	9,747
Financial assets at amortised cost	20,379	(59,866)
Other operating assets	(9,884)	(125,033)
	10,543	(174,992)
Net increase/decrease in operating liabilities:		
Financial liabilities held for trading	(127)	(126)
Financial liabilities at amortised cost	(84,303)	362,754
Other operating liabilities	(660)	113,338
	(85,090)	475,966
Collection/Payments for income tax	(42,817)	(28,033)
Total cash flow from operating activities	13,617	387,447
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments-		
Tangible assets	(3,314)	(1,614)
Intangible assets	(22,343)	(3,612)
	(25,657)	(5,226)
Total cash flow from investing activities	(25,657)	(5,226)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Investment-		
Dividends	(14,500)	(33,480)
Total cash flow from financing activities	(14,500)	(33,480)
EFFECT EXCHANGE RATE CHANGES	75	80
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	(26,465)	348,821
Cash and cash equivalents at beginning of year	737,891	389,070
Cash and cash equivalents at end of the period	711,426	737,891
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD:		
Cash	18	20
Cash equivalents at central banks	345,281	342,282
Other financial assets	366,127	395,589
TOTAL CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	711,426	737,891

(*) 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 2018.

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 2018

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. On 4 February 2019, the Bank changed its registered office to calle de los Padres Dominicos 7 (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.

On 21 November 2017, Liberty Partners, S.L.U. (previously named Adubala ITG, S.L.U., a company belonging to the Hellman & Friedman Group) acquired all the shares of the Bank (see Note 15). Consequently, on 21 November 2017, the Bank's newly acquired sole shareholder status was public deeded. However, pursuant to Article 16.1 of Legislative Royal Decree 1/2010, of 2 July, approving the Consolidated Spanish Limited Liability Companies Law, it is hereby stated that at 31 December 2018 the Bank had not entered into any contracts with its sole shareholder, Liberty Partners, S.L.U.

b) Basis of presentation of the consolidated financial statements

The consolidated financial statements for 2018 were prepared by the directors of the Bank, as the Parent, at the Board meeting on 25 March 2019 in accordance with the regulatory framework applicable to the Group, which is that established in Bank of Spain Circular 4/2017, of 27 November 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 2018 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.

The Group's consolidated financial statements for 2018 have not yet been approved by the sole shareholder of the Bank. 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 2017 were approved by the sole shareholder at the Annual General Meeting of the Bank on 30 May 2018 and filed at the Madrid Mercantile Registry.

The principal accounting policies and measurement bases applied in preparing the Group's consolidated financial statements for 2018 are described in Note 2. All mandatory accounting policies and measurement bases with a material effect on the consolidated financial statements for 2018 were applied in their preparation. No non-obligatory accounting principles were applied.

On 1 January 2018, came into force the *Bank of Spain Circular 4/2017, of 27 November, to credit institutions on public and confidential financial reporting rules and formats*.

The main purpose of Circular 4/2017 is to adapt the accounting system of Spanish credit institutions to the changes in European accounting legislation stemming from the adoption of two new International Financial Reporting Standards (IFRSs): (i) IFRS 9, which will amend the methods of accounting for financial instruments; and (ii) IFRS 15, which will amend revenue recognition methods.

The three most noteworthy changes introduced by this Circular that emanate directly from the amendments to IFRS 9 are as follows:

- (i) The change in the financial asset impairment model, which ceases to be based on incurred losses and is now based on expected losses. The purpose of this change is to obtain a more appropriate measurement of the assets and an earlier recognition of any impairment losses thereon.
- (ii) The amendment of the portfolios in which financial assets are classified for measurement purposes.
 - The measurement criteria applicable to debt instruments will be determined on the basis of their contractual characteristics and the business model.
 - Investments in equity instruments must be measured at fair value through profit or loss, unless they are considered as strategic investment in their business models and can be valued with changes in other comprehensive income.
 - Other financial assets must be recognised in the balance sheet at fair value.
- (iii) The regulation of hedge accounting. An accounting scheme is introduced additional to the one existing to date, and the latter will continue to exist during the transitional period. The new rules

eliminate quantitative tests of effectiveness, with a change requiring monitoring and an adjustment of the coverage ratio.

As regards the changes arising from the adaptation to IFRS 15, mention must be made of the new recognition model for revenue other than revenue from financial instruments, which will be based on: (i) identifying the performance obligations in the contract, (ii) determining the transaction price, (iii) allocating the transaction price to the performance obligations in the contract and (iv) recognising revenue when (or as) the entity satisfies a performance obligation.

Lastly, the Circular introduces certain changes to institutions' public and confidential financial reporting formats.

The application of the aforementioned accounting legislation and its clarifications did not have a material effect on the Bank's financial statements.

Main regulatory changes that will come into force on 1 January 2019

Bank of Spain Circular 2/2018, of 21 December, amending Bank of Spain Circular 4/2017, of 27 November, 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 purpose of this Circular is to adapt Bank of Spain Circular 4/2017 to Commission Regulation (EU) 2017/1986 of 31 October 2017 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (EU-IFRS) 16, Leases.

The new standard introduces a single lessee accounting model, requiring assets and liabilities to be recognised for all leases. The only exceptions are short-term leases and leases for which the underlying asset is of low value. The lessee is required to recognise a right-of-use asset representing its right to use the leased asset and a lease liability representing its obligation to make lease payments.

As regards lessor accounting, Bank of Spain Circular 2/2018, of 21 December, largely maintains the accounting requirements of Bank of Spain Circular 4/2017, of 27 November. Consequently, lessors will continue to classify their leases as finance or operating leases and will account for each type of lease differently.

In 2018 the Group carried out a project to implement Bank of Spain Circular 2/2018 with the participation of all the areas affected. The Circular will mainly affect the accounting for the Bank's operating leases.

With regard to the estimated effect on the Group's financial statements as at the transition date, the Bank has elected to apply the cumulative catch-up approach, whereby it will recognise lease liabilities at an amount equal to the present value of the future payment commitments at 1 January 2019. With respect to assets, the Group has elected to recognise right-of-use assets at an amount equal to the lease liabilities. As a result of this approach, the Bank expects to recognise right-of-use assets and lease liabilities amounting to approximately EUR 22.4 millions mainly in the property lease business.

The actual impacts of the adoption of the Circular at 1 January 2019 may change because:

- The Bank has not completed all the tests.

- The new accounting policies, methodologies and parameters might be subject to change before the Bank files its first financial statements containing the definitive impact at the date of initial application.

The Circular also amends Bank of Spain Circular 1/2013, of 24 May, on the Central Credit Register (CCR), including minor changes in order to introduce clarifications and improvements.

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 2018 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 classification of financial instruments based on the business model and the compliance or not of the SPPI tests.
2. The impairment losses on certain assets (see Notes 8, 10 and 11).
3. The useful life of the tangible and intangible assets (see Notes 10 and 11).
4. The assessment of any possible contingent liabilities affecting the Group and the need to recognise provisions therefor (see Note 2-j).
5. 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 2018 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 4/2017, 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 4/2017.

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 4/2017, 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

Appendix I contains salient information on the subsidiaries.

The only changes which have occurred in the Group's scope of consolidation during 2018 have been the following:

Fintech Partners, S.L.

Description of the transaction

On 17 January 2018, Allfunds Bank, S.A.U. obtained control over Fintech Partners, S.L. through the purchase of all its shares from a third party for a total of EUR 20 million. Fintech Partners, S.L. is the parent of a group of companies (Finametrix, S.L.U. and Nextportfolio, S.L.U.) engaged in computer programming activities.

On that same date, the Parent signed the share purchase agreement which established the following payment schedule:

- i. An initial payment amounting to EUR 12.5 million, which was made on 17 January 2018.
- ii. A payment of EUR 7.5 million subject to the following terms and conditions established in the share purchase agreement:
 - A payment of EUR 2.1 million on 17 January 2021, conditional on the Fintech Partners S.L. former shareholders remaining employees of Allfunds Bank, S.A.U. until this date. At 31 December 2018, the Company has accrued for this concept EUR 569 thousand.
 - A payment of up to EUR 5.4 million subject to achieving revenue targets totalling a minimum of EUR 13.3 million and a maximum of EUR 19.2 million in the 36 months following the purchase date in accordance with the model defined in the agreement.

Assets acquired and liabilities assumed on the acquisition date

The assets and liabilities of Fintech Partners, S.L. recognised on the acquisition date were provisionally accounted for as follows:

	Thousand of Euros
	Fair Value (*)
Asset:	
Cash, cash balances at Central Bank and other demand deposits	530
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	60
Financial assets at amortised cost	605
Tangible assets	50
Intangible assets	143
Tax assets	134
Other assets	102
Liability:	
Financial liabilities at amortised cost	(319)
Tax liabilities	(329)
Other liabilities	(40)
Net assets acquired	936

(*) Not audited

Intangible Assets arising from the business combination

This business combination gave rise to the following intangible assets as a consequence of the higher price paid on the net assets acquired:

	Thousands of euros
Consideration transferred Fintech Partners, S.L.	12,500
Less- Fair value of the net assets acquired	(936)
Amount to be assigned to intangible assets arising in the combination	11,564
Relations with customers (Note 11)	3,509
Technological platform (Note 11)	2,970
deferred tax liability (Note 12)	(1,619)
Goodwill (Note 7)	6,704

As of December 31, 2018, the Group had completed the process of allocating the purchase price of Fintech Partners, S.L., taking into account the report made by an independent expert. The movement of these assets in 2018 due to the amortisation of these assets based on their useful life is as follows:

	Useful life	Thousands of euros		
		Beginning Balance	Amortisation	Ending Balance
Relations with customers (Nota 11)	20	3,509	(169)	3,340
Technological platform (Nota 11)	5	2,970	(567)	2,403
deferred tax liability (Nota 12)	-	(1,619)	184	(1,435)
Goodwill	10	6,704	(639)	6,065

Impact of the business combination on Group earnings

The gain attributable to this business combination from the acquisition date to 31 December 2018 amounts to EUR 630 thousand.

Allfunds Bank Brasil Representações LTDA

On 22 February 2018, Allfunds Bank Brasil Representações LTDA increased its share capital by EUR 322 thousand through the issue of 1,281,475 shares with a par value of EUR 0.25, which were subscribed in full by the Bank. Additionally, on 12 September 2018, Allfunds Bank Brasil Representações LTDA realised another share capital increase by an amount of EUR 496 thousand through the issue of 2,375,000 shares with a par value of EUR 0.21, which were subscribed in full by the Bank. Consequently, as at 31 December 2018 the share capital of Allfunds Bank Brasil Representações LTDA amounted to EUR 1,043 thousand.

Allfunds Hong Kong Limited

On 23 April 2018, Allfunds Bank, S.A.U. incorporated Allfunds Hong Kong Limited, as a private limited liability company and as a subsidiary. At the date of authorisation for issue of these consolidated financial statements, the disbursement of the capital amounting to HKD 1 thousand (EUR 103) is pending.

e) Agency agreements

Neither at the end of 2018 or 2017 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 Bank's financial statements for 31 December 2018 are presented in accordance with the presentation models introduced in Bank of Spain Circular 4/2017, of 27 November, replacing 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 2018, for each item in the balance sheet, statement of profit or loss, statement of changes in equity, statement of cash flows and explanatory notes to the financial statements, the figures for 2017. In order to facilitate comparison, the financial statements and information relating to 2017 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 2017. As a result, the figures of 2017, which appear in this Report and are presented solely and exclusively for comparative purposes, do not constitute the Annual Accounts of the Bank for the year 2017.

The changes affect mainly the names of certain items in the financial statements, the grouping of those items within the consolidated financial statements, certain subtotals and the general presentation structure, as well as the method for estimating impairment losses on financial assets, which gave rise to an impact of EUR 30 thousand (see Note 1-b). The most relevant underwent changes are the following:

- Creation of the category of "Financial assets not designated for trading, valued at fair value through profit or loss". The creation of this section has not had an impact on the Bank
- Substitution of the category of "Available-for-sale financial assets" for "Financial assets at fair value with changes in other comprehensive income". This has meant that the equity instruments classified under "Available-for-sale financial assets" as of December 31, 2017 for the amount of 193 thousand euros are classified on January 1, 2018 under the heading "Financial assets not designated for trading compulsorily measured at fair value through profit or loss".
- Substitution of the category of "Loans and receivables" for the category of "Financial asset at amortised cost". As a result, 404,676 thousand euros that were classified under "Loans and receivables" as of December 31, 2017 have been reclassified as of January 1, 2018 to the "Financial assets at amortised cost" section.
- Elimination of the category of "Investment held until maturity". The elimination of this category has not had an impact on the Bank since it does not have financial assets classified in this portfolio as of December 31, 2017

Based on the foregoing, and taking into account December 31, 2017 data, the Bank's directors have evaluated the estimated impact of the initial application of Circular 4/2017 on its annual accounts, the impact of which amounts a total of 30 thousand euros. As a result of the foregoing, the Bank's directors consider that the entry into force of this standard has not significant impact on its financial statements.

The balance sheet, the statement of profit or loss, the statement of changes in equity and the statement of cash flows as of 31 December 2017, excluding the changes introduced by Bank of Spain Circular 4/2017, are summarised below:

Balance sheet (Thousands of Euros):

ASSETS	31-12-2017	LIABILITIES AND EQUITY	31-12-2017
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS	737,891	FINANCIAL LIABILITIES HELD FOR TRADING	340
FINANCIAL ASSETS HELD FOR TRADING	479	FINANCIAL LIABILITIES AT AMORTISED COST	967,725
AVAILABLE-FOR-SALE FINANCIAL ASSETS	193	TAX LIABILITIES	8,713
LOANS AND RECEIVABLES	404,676	OTHER LIABILITIES	272,752
TANGIBLE ASSETS	6,961	TOTAL LIABILITIES	1,249,530
INTANGIBLE ASSETS	7,541	SHAREHOLDERS' EQUITY:	215,155
TAX ASSETS	486	Paid up capital	27,041
OTHER ASSETS	306,389	Retained earnings	129,478
		Profit or loss attributable to owners of the parent	75,258
		Interim dividends	(16,622)
		ACCUMULATED OTHER COMPREHENSIVE INCOME	(69)
		TOTAL EQUITY	215,086
TOTAL ASSETS	1,464,616	TOTAL LIABILITIES AND EQUITY	1,464,616

Income statement (Thousands of Euros)

	Income / (Expenses)
	31-12-2017
INTEREST INCOME	799
INTEREST EXPENSES	(554)
NET INTEREST INCOME	245
DIVIDEND INCOME	-
FEE AND COMMISSION INCOME	1,020,444
FEE AND COMMISSION EXPENSES	(831,214)
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	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	80
OTHER OPERATING INCOME	583
OTHER OPERATING EXPENSES	(670)
GROSS INCOME	189,607
ADMINISTRATION COSTS	(75,021)
DEPRECIATION & AMORTISATION	(2,439)
PROVISIONS OR REVERSAL OF PROVISIONS	-
IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	375
NET OPERATING INCOME	112,522
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	-
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	-
PROFIT OR LOSS BEFORE TAXATION FROM CONTINUING ACTIVITIES	112,522
TAXATION EXPENSE OR INCOME RELATED TO PROFIT OR LOSS FROM CONTINUING ACTIVITIES	(37,264)
PROFIT OR LOSS AFTER TAXATION FROM CONTINUING ACTIVITIES	75,258
PROFIT FROM DISCONTINUED ACTIVITIES (net)	-
RESULTS FOR THE PERIOD	75,258

Statement of changes in Equity (Thousands of Euros)

	Income /(Expenses)
	31-12-2017
RESULTS FOR THE PERIOD	75,258
OTHER RECOGNIZED INCOME (EXPENSES):	(271)
Items not subject to reclassification to income statement	-
Items subject to reclassification to income statement	(271)
TOTAL RECOGNISED INCOME AND EXPENSE	74,987

Statement of changes in Equity (Thousands of Euros)

	Total Equity						
	Shareholders' Funds					Accumulated other Comprehensive Income	Total Equity
	Capital	Retained Earnings	Profit or Loss	Interim Dividends	Total Shareholders' Funds		
ENDING BALANCE AT 31 DECEMBER 2016	27,041	124,379	69,074	(47,117)	173,377	202	173,579
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-
ADJUSTED BEGINNING BALANCE AT 1 JANUARY 2017	27,041	124,379	69,074	(47,117)	173,377	202	173,579
Total income/expense recognized	-	-	75,258	-	75,258	(271)	74,987
Other changes in equity:	-	5,099	(69,074)	30,495	(33,480)	-	(33,480)
Transfers between total equity entries	-	-	(16,858)	(16,622)	(33,480)	-	(33,480)
Dividend distribution	-	5,099	(52,216)	47,117	-	-	-
ENDING BALANCE AT 31 DECEMBER 2017	27,041	129,478	75,258	(16,622)	215,155	(69)	215,086

Statement of Cash Flows (Thousands of Euros)

	31-12-2017
CASH FLOWS FROM OPERATING ACTIVITIES:	
Results for the period	75,258
Adjustments to obtain the cash flows from operating activities-	
Depreciation & Amortisation	2,439
Other adjustments	36,809
	114,506
Net (increase)/decrease in operating assets -	
Financial assets held for trading	160
Financial assets available for sale	9,747
Loans and receivables	(59,866)
Other operating assets	(125,033)
	(174,992)
Net increase/(decrease) in operating liabilities-	
Financial liabilities held for trading	(126)
Financial liabilities at amortised cost	362,754
Other operating liabilities	113,338
	475,966
Collection/Payments for income tax	(28,033)
Total cash flows from operating activities	387,447
CASH FLOWS FROM INVESTING ACTIVITIES:	
Payments-	
Tangible assets	(1,614)
Intangible assets	(3,612)
Investments in joint ventures and associates.	-
	(5,226)
Total Cash flows from investing activities	(5,226)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments:	
Dividends	(33,480)
Total Cash flows from financing activities	(33,480)
EFFECT EXCHANGE RATE CHANGES	80
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS	348,821
Cash and cash equivalents at beginning of the period	389,070
Cash and cash equivalents at end of the period	737,891
MEMORANDUM ITEMS	
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD:	
Cash	20
Cash equivalents at central Banks	342,282
Other financial assets	395,589
TOTAL CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	737,891

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

On 2 February 2016, Bank of Spain Circular 2/2016, to credit institutions, on supervision and capital adequacy, which completes the adaptation of Spanish law to Directive 2013/36/EU and Regulation (EU) No 575/2013, was published. It is applicable to the Bank.

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 1.875 % in 2018, and which will increase by an additional 0.625% each year until it reaches the required level of 2.5% of Common Equity Tier 1 in 2019.
- 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 regard, the Bank of Spain maintained the countercyclical capital buffer for Spanish financial institutions at 0% of their credit risk exposure in Spain and in its latest communication of 20 December 2018 the Bank of Spain decided to maintain the buffer at 0% in the first quarter of 2019.

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 2018 and 2017, are as follows:

	Thousands of Euros	
	2018	2017
Common Equity Tier 1	187,899	144,964
Additional Tier 1 capital	-	-
Total Tier 1 capital	187,899	144,964
Tier 2 capital	-	10
Total eligible capital	187,899	144,974
Exposure for capital adequacy purposes	858,856	801,520

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

Tier 2 capital includes mainly, at 31 December 2017, the collective allowance specified in Article 62 of Regulation (EU) 575/2013.

At 31 December 2018 and 2017, the Group's eligible capital exceeded the minimum required under the regulations in force.

i) Deposit Guarantee Fund and Single Resolution Fund

i. Deposit Guarantee Fund

The Bank participates in the Deposit Guarantee Fund.

In 2018 and 2017, the accompanying consolidated 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 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 an official form for calculating the ex-ante contribution. 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 expense incurred by the Group in relation to the contribution made to the SRF in 2018 totalled EUR 264 thousand (2017: EUR 216 thousand) and is recognised under "Other Operating Expenses" in the accompanying consolidated 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 Customer Ombudsmen of Financial Institutions, the Customer Care Service's annual report was submitted to the Bank's Board of Directors at its meeting held on 25 March 2019. This report indicates that in 2018 the Milan branch received three claims from retail customers with respect to the business activity carried on by the Italian branch as an entity responsible for payment intermediation in the banking business. These claims were closed without giving rise to an outflow from the Bank of resources embodying economic benefits to settle them. Also, there was a considerable increase in the number of requests received from retail customers for clarification with regard to delays in the execution of transfers and to transaction confirmation letters or general meeting call letters that were incorrectly received. Each and every request for clarification was replied to and a careful analysis was performed so that they could become the starting point in the improvement of the service provided to customers.

k) Events after the reporting period

On March 24th 2019, Allfunds Bank S.A.U. entered into a definitive agreement to acquire Nordic Fund Market ("NFM") through the purchase of 100% of the shares in Nasdaq Broker Services AB from its shareholder Nasdaq Technology AB. NFM is one of the major providers of fund services in Sweden. The company holds an Investment Firm license in Sweden, is regulated by Swedish Finansinspektionen and is also authorized to operate in Finland and Norway on a cross border basis. The transaction remains subject to customary regulatory approvals and is expected to close during 2H2019.

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 "derivative" is a financial instrument whose value changes in response to the change in a specified variable, sometimes called the underlying asset (such as an interest rate, financial instrument price, commodity price, foreign exchange rate, credit rating or the related index), which doesn't require an initial investment or 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 Joint Ventures and Associates", which are reported separately.

In accordance with Standard 22 of Circular 4/2017 of Banco de España, financial assets and liabilities are classified on the basis of the business model the Bank establishes to manage them and considering its contractual cash flows as defined below:

- The business model to manage financial assets is the way the Bank manages the financial asset groups together to generate cash flows. The aforementioned model can consist of holding financial assets to collect contractual cash flows, the sale of these assets or a combination of both objectives.
- The contractual cash flow characteristics of financial assets can be:
 - Those contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, commonly referred to as "SPPIs" and,
 - the rest of the characteristics.

a) Business models

There are three types of business model depending on how cash flows for financial instruments are handled:

- Amortised cost – collection of contractual cash flows: This consists of holding assets in order to collect contractual cash flows (principal and interests) over the life of the instrument.
- Mixed – collection of contractual cash flows and sale of financial assets: The mixed model combines the objective of holding assets to collect contractual cash flows the terms of which also respond solely to payments of the principal and interests, as well as selling these assets.
- Trading – sale of financial assets: The business model consists of buying and selling assets. The Bank makes its decisions based on the fair value of the assets and manages these to obtain their fair value.

b) SPPI test

The SPPI tests consists of determining if, in accordance with the contractual characteristics of the instrument, its cash flows represent only the return of its principal and interests, understood basically as compensation for the time value of money and debtor's credit risk.

The main purpose of the test is to distinguish between which products contained in the "collection of contractual cash flows" and "collection of contractual cash flows and sale of financial assets" business models can be measured at amortised cost and at fair value through other comprehensive income, respectively, or contrariwise, must be mandatorily measured at fair value through profit or loss. Debt instruments that are measured at fair value through profit and loss and equity instruments are not subject to this analysis.

Specifically, a financial asset, depending on its business model and the SPPI test, is classified into:

1. Financial assets at amortised cost: if the instrument is managed to generate cash flows in the form of contractual collections during the expected life of the instrument and passes the SPPI test.
2. Financial assets at amortised cost and at fair value through other comprehensive income: if the instrument is managed to generate cash flows i) in the form of contractual collections during the expected life of the instrument and ii) by means of the sale of the same and passes the SPPI test.
3. Financial assets mandatorily measured at fair value through profit or loss: if the instrument is managed to generate cash flows through their sale or if it does not meet the SPPI with the aforementioned business models. There are two categories of these assets:
 - Financial assets that are held for trading; included in this subcategory are instruments that meet one of the following characteristics: i) are acquired or incurred principally for the purpose of selling or repurchasing them in the short term, ii) are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking and iii) are a derivative that do not meet the definition of a financial guarantee contract and have not been designated as a hedging instrument.
 - Financial assets not designated for trading compulsorily measured at fair value through changes in profit and loss. Debt instruments that cannot be classified at amortised cost or at fair value through other comprehensive income shall be classified in this subcategory given that, owing to their contractual characteristics, the cash flows they generate are not solely payments of principal and interest on the principal amount outstanding.

At initial recognition, the Bank can irrevocably opt to include equity instruments that must not be classified as held for trading in the "Financial assets at fair value through other comprehensive income" portfolio. Resort shall be had to this option on an instrument-by-instrument basis. Moreover, at initial recognition, the Bank may irrevocably opt to designate any financial asset as at fair value through profit or loss, if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses thereon using different criteria.

Regardless of the frequency and importance of the sales, certain types of sale are not compatible with the held for trading category to receive contractual cash flows: such as sales owing to drops in credit quality, sales close on transaction maturity, in such a way that market price variations would not have a significant impact on the cash flows of the financial asset, sales responding to a change in regulations or taxation, sales responding to an internal restructuring or significant business combination, sales arising from the implementing of a liquidity crisis plan when the crisis event is not reasonably expected.

On 1 January 2018, the Bank defined the business models and divided up its financial instrument portfolio for the purpose of doing the SPPI test, thereby distinguishing: i) families of instruments that group together fully homogeneous products ("umbrella families") in such a way that by testing a sample of portfolio products it would be possible to extrapolate the conclusion as to whether or not the rest of the products in the same family pass the test and ii) products which, because of their nature are analysed on a case-by-case basis, with respect to which the Bank conducted the SPPI test on each one

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

Financial liabilities are classified into the various categories used for management and measurement purposes unless they are related to Hedge derivatives, which are reported separately. Financial liabilities are classified for measurement purposes into one of the following categories:

- 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 held for trading: it includes compulsorily all the financial liabilities which comply with any of the following characteristics: they have been issued with the intention of being repurchased in the near future, they are short positions, belong to a portfolio of financial instruments identified and managed jointly, for which there is evidence of recent actions with the objective of achieving short term profit or there are derivatives instruments which do not meet with the definition of a financial guarantee contract and have not been designated as accounting hedging instruments.
- 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 financial assets at amortised cost, 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 at amortised cost

"Financial assets at amortised cost" 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 consolidated 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 considered likely to occur. 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.

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.

Financial assets at fair value through accumulated other comprehensive income

Financial assets at fair value through other comprehensive income are recognised in the consolidated balance sheet at fair value from their trade date. Changes in the fair value of all these assets are recognised in consolidated equity (other comprehensive income). When they consist of investments in debt instruments, the cumulative changes in value remain in equity until the asset is derecognised, at which time they are reclassified to profit or loss; however, when they consist of equity instruments, the cumulative changes are reclassified directly to reserves when the asset is derecognised.

Financial assets not designated for trading compulsorily measured at fair value through profit or loss

"Financial assets not designated for trading compulsorily measured at fair value through profit or loss" are recognised in the consolidated balance sheet at fair value from their trade date. Changes in the fair value of all these assets are recognised under "Gains or Losses on Financial Assets and Liabilities Designated at Fair Value through Profit or Loss, Net" in the consolidated statement of profit or loss, except for any interest accrued by application of the effective interest method, which is recognised under "Interest Income" in the consolidated statement of profit or loss.

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.

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 2018 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.

Additionally, the fair value recognised by the Group for the financial instruments included under "Financial assets not designated for trading compulsorily measured at fair value through profit or loss" is obtained, for units in investment funds, from the prices sourced from information service providers, mainly Bloomberg, which construct their prices on the basis of those reported by contributors. With regard to equity instruments not listed on organised markets and for which no other valid references for the estimation of fair value are available, the Group recognises these instruments at cost in the consolidated balance sheet since it is not possible to estimate their fair value reliably. In these cases, the Group estimated the potential impairment of these instruments on the basis of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement.

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.

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 2018 and 2017 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 2018 and 2017 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, 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.

The hedging amount for impairment shall be calculated according to whether or not there has been a significant increase in the credit risk since initial recognition and whether or not default has occurred. Accordingly, impairment hedging shall be equal to:

- The expected twelve-month credit losses when the risk of default has not significantly increased since initial recognition.
- The lifetime expected credit losses if the risk of default has significantly increased since initial recognition.
- Expected credit losses when default has occurred.

Financial instruments are grouped into three (3) categories based on the impairment method applied, in accordance with the following structure:

- Stage 1 – Normal risk: those transactions the credit risk of which has not significantly increased since initial recognition. Impairment hedging shall be equal to the twelve-month expected credit losses. Interest revenue shall be calculated applying the effective interest rate to the gross carrying amount of the transaction.
- Stage 2 – Normal risk under special surveillance: those transactions the credit risk of which has significantly increased since initial recognition, but without default. Impairment hedging shall be equal to the lifetime expected credit losses of the transaction. Interest revenue shall be calculated applying the effective interest rate to the gross carrying amount of the transaction.
- Stage 3 – Non-performing: credit-impaired transactions, i.e. there has been default. Hedging shall be equal to the expected credit losses. Interest revenue shall be calculated by applying the effective interest rate at amortised cost (i.e. adjusted for an impairment allowance) of the financial instrument.

The measurement of whether or not there has been any significant increase in credit risk must be based on reasonable and supportable information that is available free of charge or disproportionate effort, which shall indicate the credit risk increases since initial recognition and must reflect historical, actual and forward-looking information.

The definitions established to measure the significant credit risk are in keeping with the following criteria:

- Drop in the credit rating given by credit rating agencies
- Drop in the country rating where the counterparty operates
- Increase in credit default swaps (CDS)
- Public information of results with losses
- Threat of systemic risk
- Merger, take-over or consolidation movements
- Changes in shareholders

- Significant increase in consumption limits and in customer payment experience.

Whatever the case, Stage 2 is considered with respect to instruments with defaults of over 30 days.

Method to calculate expected losses

The Bank has decided to continue using the practical solutions to calculate its expected portfolio losses in accordance with the requirements set forth in Circular 4/2017.

The measurement process for possible impairment losses for these instruments that involve the risk of insolvency for obligors (credit risk) is done collectively, as there are no significant individual cases that exceed a particular threshold. The aforementioned estimate is done by applying the alternative solutions contained in Appendix IX to Circular 4/2017, calculated on the bases of the parameters established by the Banco de España based on sector information and its accrued experience.

The amount for impairment losses, estimated in accordance with the criteria set forth above, are entered in the headings "Impairment losses or reversals on financial assets not at fair value through profit or loss – Financial assets at amortised cost".

As a general criterion, the carrying amount allowance for financial instruments due to impairment is entered in the profit and loss account for the reporting year in which the impairment appears. Recoveries of previously entered impairment losses, where appropriate, are reflected in the profit and loss account for the reporting year in which the impairment is eliminated or reduced.

Whenever it is considered that the probability of recovery of any amount entered is remote, this is removed from the balance, without prejudice to the Bank and its dependent companies attempting its collection until their rights have definitively lapsed; whether owing to the statutory limitation, having been written off or some other reason.

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 2018 and 2017, 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 2018 amounted to EUR 6,111 thousand (2017: EUR 5,484 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 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).

This category mainly includes computer applications and intangible assets arising from the acquisition of Fintech Partners, SL (customer relations, technological platform and goodwill (see Note 1.d).

Goodwill

Any excess of the cost of the investments in the consolidated entities and entities accounted for using the equity method over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

- it is attributable to specific assets and liabilities of the companies acquired, by increasing the value of the assets (or reducing the value of the liabilities) whose fair values were higher (lower) than the carrying amounts at which they had been recognized in the acquired entities' balance sheets.
- If it is attributable to specific intangible assets, by recognizing it explicitly in the consolidated balance sheet provided that the fair value of these assets within twelve months following the date of acquisition can be measured reliably.
- The remaining amount is recognized as goodwill, which is allocated to one or more cash-generating units (a cash generating unit is the smallest identifiable group of assets that, as a result of continuing operation, generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets). The cash-generating units represent the Group's geographical and/or business segments.

Goodwill (only recognized when it has been acquired by consideration) represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired entity that are not capable of being individually identified and separately recognized.

At the end of each annual reporting period or whenever there is any indication of impairment goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to Impairment or reversal of impairment on non-financial assets, net - Intangible assets in the consolidated income statement.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

In accordance with the applicable regulation, the goodwill's useful life has been estimated at 10 years and it is amortised annually.

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 3,062 thousand).

On the date of 13 January 2017, the group of defendants, which includes Allfunds Bank, filed an application for the dismissal of the pending demand. As a result of this application and the response to it submitted by the plaintiff and subsequent reports requested by the Court, on the 6 August 2018, the Court issued a decision on some issues included in the defendants' petition to dismiss the plaintiffs' allegations, requesting the parties to provide the Court with guidance on the most efficient way to proceed. To that end, the plaintiff and the defendants negotiated and signed a procedure that would allow the Court to decide on the remaining material issues presented in the dismissal petition. On 20 September 2018, the Court approved the procedure agreed between the defendants and the plaintiff. On 6 December 2018, the court found in favour of the defendants with respect to their contractual

claims, except in the cases in which the defendant was irrefutably aware that the applicable net asset value at the time the redemptions were made was erroneous due to the investments of the funds held through Madoff, situation in which the plaintiff could go against the defendants.

On March 22, 2019 the plaintiff has handed to the New York Court the documentation to close the claims with each defendant, including the Bank. These claims must be accepted by the Court, and if they do not accept them, the plaintiff will have 21 days to appeal the Court's decision of December 6, 2018.

The Group considers that, ultimately, it will not have to bear the possible adverse consequences of the aforementioned proceeding, since it considers that it acted merely as an intermediary without benefiting, on any occasion, from the redemptions made, and that it was not irrefutably aware that the applicable net asset value at the time the redemptions were made was erroneous, and, accordingly, no provision was recognised in this connection at 31 December 2018.

At 2018 and 2017 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 equivalent euro value of the main asset and liability balances in the balance sheet denominated in foreign currency at 31 December 2018 and 2017, taking into account the nature of the entries and the most meaningful foreign currencies to be represented is as follows:

Nature of Foreign Currency Balances	Equivalent Value in Thousands of Euros			
	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Balances in US dollars:				
Cash, and cash balances with Central Banks and other demand deposits	84,424		78,975	-
Financial assets at amortised cost	24,586		456	-
Other assets	41,540		38,859	-
Financial liabilities at amortised cost		109,023	-	83,782
Other liabilities		35,007	-	42,434
	150,550	144,030	118,290	126,216
Balances in pounds sterling:				
Cash, and cash balances with Central Banks and other demand deposits	79,090		74,314	-
Financial assets at amortised cost	1,226		1,384	-
Tangible assets	1,761		1,598	-
Other assets	6,495		6,919	-
Financial liabilities at amortised cost		81,368	-	75,930
Other liabilities		6,669	-	6,720
	88,572	88,037	84,215	82,650
Balances in other currencies:				
Cash and balances with Central Banks and other demand deposits	27,745		25,419	-
Financial assets at amortised cost	750		221	-
Tangible assets	1,202		660	-
Tangible assets	31		1	-
Tax assets	40		1	-
Other assets	2,128		2,467	-
Financial liabilities at amortised cost		17,066	-	18,878
Tax liabilities		-	-	14
Other liabilities		2,793	-	2,936
	31,896	19,859	28,769	21,828
Total foreign currency balances	271,018	251,926	231,274	230,694

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 (in the Group's case, derivatives classified as Financial assets held for trading), 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.

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 2018 and 2017 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 2018 and 2017, 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 2018. 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:

- Consolidated profit or loss.
- 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.
- The net amount of the income and expenses recognised in the consolidated equity that may be reclassified to profit or loss in the future.
- 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

Allfunds Bank, S.A. is the Parent of the Allfunds Bank Group. At 31 December 2018, the Bank's assets and equity represented most of the Group's consolidated assets and equity. The Bank's net profit and its separate profit for 2018 represented most of the consolidated net profit attributable to the Parent in 2018, 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) and three representative offices abroad (Colombia, Chile and Dubai). In addition to the operations carried out directly, the Bank is the head of a group of subsidiaries (see Appendix I) that are engaged in various activities and that constitute, together with it, the Allfunds Group (the "Group").

The Bank's condensed 2018 and 2017 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 2018 AND 2017
(Thousands of Euros)

ASSETS	2018	2017	LIABILITIES AND EQUITY	2018	2017
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS	547,941	661,730	LIABILITIES:		
FINANCIAL ASSETS HELD FOR TRADING	358	478	FINANCIAL LIABILITIES HELD FOR TRADING	215	363
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	384	193	FINANCIAL LIABILITIES AT AMORTISED COST	774,648	926,002
LOANS AND RECEIVABLES	381,352	404,327	HEDGING DERIVATIVES	-	-
HELD-TO-MATURITY INVESTMENTS	-	-	FAIR VALUE CHANGES OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-
HEDGING DERIVATIVES	-	-	PROVISIONS	-	-
FAIR VALUE CHANGES OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-	TAX LIABILITIES	1,500	6,543
INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	29,653	16,335	OTHER LIABILITIES	235,749	236,990
TANGIBLE ASSETS	7,607	5,826	LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE	-	-
INTANGIBLE ASSETS	13,496	7,440	TOTAL LIABILITIES	1,012,112	1,169,898
TAX ASSETS	7,554	443	EQUITY:		
OTHER ASSETS	268,564	267,630	SHAREHOLDERS' FUNDS:	244,797	194,504
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	-	-	Paid up capital	27,041	27,041
			Retained earnings	167,463	114,287
			Profit or loss	79,293	69,798
			Interim dividends	(29,000)	(16,622)
			ACCUMULATED OTHER COMPREHENSIVE INCOME	-	-
			TOTAL EQUITY	244,797	194,504
TOTAL ASSETS	1,256,909	1,364,402	TOTAL LIABILITIES AND EQUITY	1,256,909	1,364,402
MEMORANDUM ITEMS:					
Contingent liabilities	-	-			
Contingent commitments	53.837	53,250			

ALLFUNDS BANK, S.A.

CONDENSED INCOME STATEMENTS FOR THE YEARS ENDED
31 DECEMBER 2018 AND 2017
(Thousands of Euros)

	Income/(Expenses)	
	2018	2017
INTEREST INCOME	2,058	768
INTEREST EXPENSES	(1,273)	(602)
EXPENSES ON SHARE CAPITAL REPAYABLE ON DEMAND	-	-
NET INTEREST INCOME	785	166
DIVIDEND INCOME	-	-
FEE AND COMMISSION INCOME	1,161,628	872,428
FEE AND COMMISSION EXPENSES	(969,170)	(703,071)
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	143	115
GAINS/(LOSSES) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS, NET	(350)	-
GAINS/(LOSSES) FROM HEDGE ACCOUNTING, NET	-	-
EXCHANGE DIFFERENCES, NET	125	100
OTHER OPERATING INCOME	7,193	4,207
OTHER OPERATING EXPENSES	(1,799)	(609)
GROSS INCOME	198,555	173,336
ADMINISTRATION COSTS	(78,448)	(66,424)
DEPRECIATION	(4,238)	(2,185)
PROVISIONS OR REVERSAL PROVISIONS	-	-
IMPAIRMENT OR REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(155)	375
NET OPERATING INCOME	115,714	105,102
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	-	-
GAINS/(LOSSES) ON DERECOGNISED OF NON-FINANCIAL ASSETS AND SUBSIDIARIES, NET NEGATIVE GOODWILL RECOGNISED IN PROFIT OR LOSS	(7)	-
PROFIT OR LOSS FROM NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE NOT QUALIFYING AS DISCONTINUED OPERATIONS	-	-
OPERATING PROFIT BEFORE TAX	115,707	105,102
TAX EXPENSE OR INCOME RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS	(36,414)	(35,304)
PROFIT FROM CONTINUING OPERATIONS	79,293	69,798
PROFIT FROM DISCONTINUED OPERATIONS (net)	-	-
PROFIT	79,293	69,798

ALLFUNDS BANK, S.A.

**STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS
ENDED 31 DECEMBER 2018 AND 2017**

A) CONDENSED STATEMENTS OF RECOGNISED INCOME AND EXPENSE
(Thousands of Euros)

	2018	2017
PROFIT RECOGNISED IN INCOME STATEMENT	79,293	69,798
OTHER RECOGNISED INCOME (EXPENSES)	-	(19)
Items not subject to reclassification to income statement	-	-
Items subject to reclassification to income statement	-	(19)
TOTAL INCOME AND EXPENSE FOR THE YEAR	79,293	69,779

B) STATEMENTS OF CHANGES IN TOTAL EQUITY
(Thousands of Euros)

2018

	Total Equity						
	Shareholders' Funds					Accumulated Other Comprehensive Income	Total Equity
	Paid up Capital	Retained Earnings	Profit or Loss	Interim Dividends	Total Shareholder s' Funds		
ADJUSTED BEGINNING BALANCE AT 1 JANUARY 2017	27,041	114,287	69,798	(16,622)	194,504	-	194,504
Total income/ expense recognized	-	-	79,293	-	79,293	-	79,293
Other changes in equity:	-	53,176	(69,798)	(12,378)	(29,000)	-	(29,000)
ENDING BALANCE AT 31 DECEMBER 2018	27,041	167,463	79,293	(29,000)	244,797	-	244,797

2017

	Total Equity						
	Shareholders' Funds					Accumulated Other Comprehensive Income	Total Equity
	Paid up Capital	Retained Earnings	Profit or Loss	Interim Dividends	Total Shareholder s' Funds		
ADJUSTED BEGINNING BALANCE AT 1 JANUARY 2017	27,041	114,287	63,975	(47,117)	158,186	19	158,205
Total income/ expense recognized	-	-	69,798	-	69,798	(19)	69,779
Other changes in equity:	-	-	(63,975)	30,495	(33,480)	-	(33,480)
ENDING BALANCE AT 31 DECEMBER 2017	27,041	114,287	69,798	(16,622)	194,504	-	194,504

(*) Presented for comparison purposes only.

The accompanying Notes 1 to 31 and Appendix I are an integral part of the statement of changes in total equity for 2018.

ALLFUNDS BANK, S.A.
CONDENSED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED
31 DECEMBER 2018 AND 2017
(Thousands of Euros)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit for the year	79,293	69,798
Adjustments made to obtain the cash flows from operating activities	40,689	37,014
Profit adjusted	119,982	106,812
Net increase/decrease in operating assets	14,705	(189,117)
Net increase/decrease in operating liabilities	(168,164)	461,116
Collection/Payments for income tax	(40,536)	(28,017)
Total Cash Flows from operating activities	(74,013)	350,794
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments	(25,401)	(5,045)
Total Cash Flow from investing activities	(25,401)	(5,045)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend payments	(14,500)	(33,480)
Total Cash Flow from financing activities	(14,500)	(33,480)
EFFECT EXCHANGE RATE CHANGES	125	100
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	(113,789)	312,369
Cash and cash equivalents at beginning of year	661,730	349,361
Cash and cash equivalents at end of the period	547,941	661,730
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD:		
Cash	16	17
Cash equivalents at central banks	216,821	299,349
Other financial assets	331,104	362,364
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	547,941	661,730

4. Distribution of the Bank's profit

The distribution of the Bank's net profit for 2018 that the Board of Directors will propose for approval by the sole shareholder is as follows:

	Thousands of Euros
Dividends	29,000
Reserves	50,293
	79,293

At the Board Meeting held on 25 July 2018, the Bank's directors resolved to distribute an interim dividend out of 2018 profit of EUR 14,500 thousand, which had been paid in full at 31 December 2018. Also, on 17 December 2018, the Bank's Board of Directors resolved to pay a second interim dividend of EUR 14,500 thousand out of 2018 profit, which had not been paid at 31 December 2018 (see Note 14.3). At the date of authorisation for issue of these consolidated financial statements, the dividend has been paid.

The provisional accounting statements 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	
	30-06-2018	31-10-2018
Profit before tax	61,028	98,249
Less:		
Estimated income tax	(19,604)	(31,777)
Dividend shared	-	(14,500)
Distributable profit	41,424	51,972
Interim dividend to be distributed	14,500	14,500
Gross dividend per share (euros)	16,09	16,09

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

a) Remuneration of Directors

Following is a detail of the remuneration earned by the members of the Bank's Board of Directors in 2018 and 2017 in their capacity of directors.

	Thousands of euros	
	2018	2017
Carvajal, Jaime	45	5
Cuccia, Mario (*)	45	23
Febbraro, Laura (**)	-	6
Kleinman, Blake	-	-
Korp, Johannes	-	-
Rangaswami, Jayaprakasa	6	-
Reid, Christopher	-	-
Saurel, Leonora	-	-
Zemek, Margaret Theodora(**)	-	15
	96	48

(*) Resignation as director on November 8, 2018

(**) Resignation as director on November 21, 2017

Also, at 31 December 2018 and 2017, the Bank did not have any post-employment obligations to current or former members of its Board of Directors. However, in 2018, the Bank paid an insurance

company premiums amounting to EUR 69 thousand in relation to third-party liability insurance to cover the Bank's directors and executives (2017: EUR 69 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 2018 and 2017:

Year	Number of Persons	Thousands of Euros		
		Salary		
		Fixed	Variable	Total
2018	37	6,746	2,293	9,039
2017	31	4,744	3,236	7,980

As a result of the obligations imposed by the Law on the Regulation and Supervision of Credit Institutions, its implementing regulations, as well as the EBA Guidelines on adequate remunerations policies, the Bank's Board of Directors has established the following remuneration model for the identified collective:

- a) For the identified group whose variable remuneration does not exceed a certain threshold, it will be entirely paid in cash in the year following its accrual.
- b) For the identified group whose variable remuneration exceeds the established threshold, the variable remuneration will be paid according to the following schedule:
 - a. 60% in cash in the year following its accrual
 - b. 40% deferred in three years from the date of its approval or the achievement of the aforementioned events being conditioned to the permanence of the beneficiary in the Bank, as well as to non of the circumstances contained in the clauses of the Bank's remuneration policy. The variable compensation will be settle in cash. As of December 31, 2018, in reference to the identified group affected, 40% of the deferred variable compensation has deferred 2/3 of the variable remuneration of 2016 and 3/3 of the variable remuneration of 2017 and 2018.

Additionally, at the Bank's General Meetings held on 23 December 2016 and 30 March 2017, the sole shareholder of the Bank resolved to approve extraordinary variable remuneration of EUR 1,005 thousand and EUR 968 thousand, respectively, to certain senior executives if certain events associated with the sale of the Bank take place. These amounts will be recognised from 2017 onwards (see Note 15). 40% of this extraordinary variable remuneration will be paid on a deferred basis over three years from the date of approval or the date on which the aforementioned events take place and will be conditional on the beneficiary remaining in the Bank's employ and that none of the circumstances envisaged in the clauses included in the Bank's remuneration policy are met.

In 2018 and 2017, the senior executives did not receive any other variable remuneration relating to long-term incentive plans. A 31 December 2018 and 2017, no incentive plans were in force.

c) Pension, insurance and other obligations

At 2018, year-end, the Bank had commitments to defined benefit post-employment obligations with 25 of the current senior executives of the Bank for retirement, permanent disability or death (2017: 21 members). The contributions made in this connection in 2018 amounted to EUR 240 thousand (2017: EUR 139 thousand) (see Note 25.1).

The capital guaranteed by life insurance policies for senior executives amounted to EUR 20,787 thousand at 31 December 2018 (31 December 2017: EUR 15,139 thousand). The Group paid premiums of EUR 35 thousand (2017: EUR 55 thousand) to insurance companies in this connection in 2018. At 31 December 2018 and 2017, 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					
	2018			2017		
	Loans and Credits	Guarantees	Total	Loans and Credits	Guarantees	Total
Directors	-	-	-	-	-	-
Senior Executives	6	-	6	7	-	7
	6	-	6	7	-	7

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

At the end of 2018, 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 2018 and 2017, is as follows:

	Thousands of Euros	
	2018	2017
Cash	18	20
Cash balances at Central Banks (*)	345,281	342,282
Other demand deposits	366,127	395,589
	711,426	737,891

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

The balance recognised under this heading at 31 December 2018 and 2017 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.

Note 29 provides information about this financial instruments fair value at December 31, 2018 and 2017.

At 31 December 2018 and 2017, the Group did not hold any assets in this category with accrued, past-due amounts or that were impaired.

7. Financial assets not designated for trading compulsorily measured at fair value through profit or loss

Following is a detail of the financial assets included in "Available-for-Sale Financial Assets" in the consolidated balance sheets as at 31 December 2018 and 2017:

	Thousands of Euros	
	2018	2017
Equity instruments:		
Shares not quoted on organised markets (*)	384	193
	384	193
Debt instruments:		
Non-resident public sector securities	-	-
	384	193

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

The Bank held equity instruments of S.W.I.F.T., SCRL, an unlisted company, at 31 December 2018 and 2017. At 31 December 2018 and 2017, none of the debt securities was assigned to own or third-party commitments.

. Note 29 provides information on the fair value of these financial assets.

At 31 December 2018 and 2017, 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.

In 2018 the Group bought and sold units in investment funds managed by BNP Paribas, Groupama and Bankia for EUR 100,000 thousand, EUR 100,000 thousand and EUR 60 thousand, respectively. These transactions gave rise to a loss of EUR 352 thousand, which was recognised under "Gains or losses on financial assets not held for trading compulsorily measured at fair value through profit or loss, net" in the accompanying statement of profit or loss (see Note 24.2).

8. Financial assets at amortised cost

The detail, by type of financial instrument, of "Loans and Receivables" in the accompanying consolidated balance sheets as at 31 December 2018 and 2017, is as follows:

	Thousands of Euros	
	2018	2017
Financial assets at amortised cost:		
to Central Banks	6,508	6,066
to credit institutions	344,616	395,760
to customers	32,762	2,850
	383,886	404,676

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 2018 and 2017 relates in full to the balances held with the Bank of Spain, the Bank of Italy and the Bank of Luxembourg 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 2018 and 2017, 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 2018 and 2017, is as follows:

	Thousands of Euros	
	2018	2017
Type:		
Time deposits	344,500	395,758
Add: Valuation adjustments	116	2
<i>Of which-</i>		
<i>Accrued interest</i>	<i>116</i>	<i>2</i>
	344,616	395,760
Currency:		
Euro	322,389	395,344
Foreign currencies	22,227	416
	344,616	395,760

Note 27 contains a detail of the terms to maturity of these assets at 2018 and 2017 year-end and of the average annual interest rates in 2018 and 2017. 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 2018 and 2017, is as follows:

	Thousands of Euros	
	2018	2017
By operation type and status:		
Receivable on demand and other (*)	32,572	2,734
Impaired assets (**)	805	327
Less: Valuation adjustments	(615)	(211)
<i>Of which-</i>		
<i>Impairment losses</i>	<i>(615)</i>	<i>(211)</i>
	32,762	2,850
Borrower's geographical area:		
Spain	6,628	492
European Union (excluding Spain)	24,466	1,811
Rest of the world	1,668	547
	32,762	2,850

(*) At 31 December 2018 includes EUR 20,599 thousand for financial operations pending settlement (settled at the date these Consolidated Annual Accounts are issued) and 7,233 thousand for commissions for the marketing of units in collective investment undertakings receivable at those dates, respectively (EUR 252 thousand for commissions for the marketing of units in collective investment undertakings receivable at 31 December 2017)

(**) 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 2018 and 2017 year-end and of the average annual interest rates in 2018 and 2017. Note 29 provides information on the fair value of these financial assets.

At 31 December 2018 and 2017, 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 2018 and 2017 were as follows:

2018

	Thousands of Euros			
	Stage 1	Stage 2	Stage 3	Total
Beginning balance Circular 4/2017	9	202	-	211
Increase through cause/acquisition	9	398	-	407
Decreases due to derecognition	(4)	-	-	(4)
Changes due to credit risk variation (recoveries)	-	(559)	559	-
Changes due to modifications without derecognition(net)	-	1	-	1
Ending balance	14	42	559	615

2017

	Thousands of Euros
	2017
Beginning balance	586
Impairment losses charged to consolidated income for the year	210
Of which:	
<i>Specific allowances for financial assets, collectively estimated</i>	144
<i>Collective allowances for incurred but not reported losses on financial assets</i>	66
Impairment losses reversed with a credit to consolidated income	(585)
Of which:	
<i>Specific allowances for financial assets, collectively estimated</i>	(515)
<i>Collective allowances for incurred but not reported losses on financial assets</i>	(70)
Net impairment charge for the year	(375)
Ending balance	211
By method of assessment:	
<i>Specific allowances for financial assets, collectively estimated</i>	202
<i>Collective allowances for incurred but not reported losses on financial assets</i>	9

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 2018 and 2017 amounting to EUR 6,428 thousand and EUR 252 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 financial assets at amortised cost and collectively estimated to be impaired due to credit risk at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Beginning balance	327	911
Additions net of recoveries	478	(584)
Ending balance	805	327

At 31 December 2018 and 2017, there was no accrued interest receivable on these assets.

In addition, following is a detail of the financial assets classified as Financial assets at amortised cost which were considered to be impaired due to credit risk at 31 December 2018 and 2017, 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 2018	170	186	145	304	805
Balances at 31 December 2017	150	36	29	112	327

Written-off assets

At 31 December 2018 and 2017, the Group did not hold any financial assets classified as Financial assets at amortised cost 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 2018 and 2017 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 2018 and 2017 in "Tangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2018	2017
Cost:		
Beginning balance	14,627	13,013
Additions	3,314	1,614
Other movements (*)	74	-
Disposals	(1,787)	-
Ending balance	16,228	14,627
Accumulated depreciation:		
Beginning balance	(7,666)	(6,397)
Charge for the year	(1,378)	(1,269)
Other movements (*)	(24)	-
Disposals	1,771	-
Ending balance	(7,297)	(7,666)
Tangible assets, net	8,931	6,961

(*) These amounts correspond to the tangible assets Fintech Partners, S.L. incorporated in the Group's balance sheet on January 17, 2018 (see Note 1.d).

The detail, by type of asset, of the items composing "Tangible Assets" in the accompanying consolidated balance sheets at 31 December 2018 and 2017 is as follows:

	Thousands of Euros		
	Cost	Accumulated Depreciation	Carrying Amount
Furniture and fixtures	12,178	(6,014)	6,164
Computer hardware	2,449	(1,652)	797
Balances at 31 December 2017	14,627	(7,666)	6,961
Furniture and fixtures	13,859	(5,662)	8,197
Computer hardware	2,369	(1,635)	734
Balances at 31 December 2018	16,228	(7,297)	8,931

At 31 December 2018, fully depreciated tangible assets amounted to approximately EUR 3,175 thousand (31 December 2017: approximately EUR 4,334 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 2018 and 2017.

At 31 December 2018 and 2017 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 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
IT developments	21,386	14,229
Goodwill (Note 1-d)	6,704	-
Technological Platform and Finamatrix's Portfolio (Note 1-d)	6,479	-
Less: Accumulated amortisation	(9,072)	(6,688)
Total, net	25,497	7,541

At 31 December 2018 or 2017, all of the Group's intangible assets had a finite useful life.

The changes (gross amounts) in 2018 and 2017 in "Intangible Assets" in the accompanying consolidated balance sheets were as follows:

	Thousands of Euros	
	2018	2017
Beginning balance	14,229	10,617
Additions(*)	22,343	3,612
Other movements(**)	153	-
Disposals	(2,156)	-
Ending balance	34,569	14,229

(*) Of which 13,182 thousand euros correspond to Goodwill and the technological platform and Finamatrix's Portfolio.

(**) These figures correspond with Fintech Partners S.L. intangible assets added to the accounts on January the 17th of 2018 (See Note 1.d).

The changes in "Accumulated Amortisation" in 2018 and 2017 were as follows:

	Thousands of Euros	
	2018	2017
Beginning balance	(6,688)	(5,518)
Charges	(4,530)	(1,170)
Disposals	2,156	-
Other movements	(10)	-
Ending balance	(9,072)	(6,688)

At 31 December 2018, fully amortised intangible assets amounted to approximately EUR 1,883 thousand (31 December 2017: approximately EUR 2,056 thousand).

None of the Group's intangible assets were impaired or had become impaired at 31 December 2018 or 2017 or in the years then ended, and no balance was recognised in this connection in those years.

12. Tax matters

In the year 2018, the Bank requested authorisation from the tax authorities to apply the consolidated tax regime for income tax effective from the tax period beginning 1 January 2018 onwards.

The Tax Administration authorized the creation of the fiscal group in which Allfunds Bank, S.A.U. and Liberty Partners, S.L.U (sole shareholder of the Bank) are integrated. Allfunds Bank S.A.U. is the company designated as the representative in Spain of the Consolidation Group. In fiscal year 2018, the Bank is taxed under a fiscal consolidation regime.

As a result of the application of the consolidated tax regime, the Bank has recognised an account payable of EUR 8,024 thousand to Liberty Partners, S.L.U. arising from the projected tax settlement for 2018 (see Note 14).

12.1 Reconciliation of accounting and fiscal results

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 2018 was accrued at Spain and at the Italian branch, by the Bank in Spain, the Finamatrix Group and by the subsidiaries Allfunds Bank International and Allfunds International Schweiz AG, and amounted to EUR 18,883 thousand, EUR 87 thousand, EUR 17,414 thousand, EUR 2,513 thousand and EUR 108 thousand, respectively (2017: 19,188 thousand, EUR 0thousand, EUR 16,123 thousand, EUR 1,860 thousand and EUR 100 thousand, respectively).

Although the income tax return for 2018 has not yet been filed, the reconciliation of the consolidated accounting profit to the estimated taxable profit in Spain of the Bank, and the Spanish income tax expense of the Bank recognised in the consolidated income statements for 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Consolidated profit before tax	124,931	112,522
Permanent differences:		
Additions (*)	5,810	8,281
Reductions (**)	(15,109)	(9,377)
Tax base	115,632	111,426
Tax rate applicable in Spain	30%	30%
Total	34,690	33,428
Less deductions and bonuses (***)	(15,807)	(14,240)
Income tax expense	18,883	19,188

(*) These related mainly to non-deductible expenses and to the exemption of income earned abroad through a permanent establishment.

(**) 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, as well as the capitalization reserve (see Note 17).

(***) 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.

12.2 Tax assets and liabilities

The detail of current and deferred tax asset balances in 2018 and 2017 is as follows:

	Thousands of euros	
	2018	2017
Current tax assets:	7,571	17
Deferred tax assets:	671	469
Non-deductible amortisations	472	439
Not tax deductible provisions	95	-
Tax credits	33	-
Other deductions from subsidiaries	71	-
Exchange differences	-	30
Total	8,242	486

The balance of "Tax Assets - Current Tax Assets" in the accompanying balance sheets includes the tax assets generated by the sole shareholder (Liberty Partners S.L.) in 2018 within the scope of tax consolidation, amounting 8,024 thousands euros, less the income tax pre-payments paid in the year. due to the effect of the collection rights of the Allfunds Bank Group against the Public Treasury for the possibility of compensating to 30% the losses generated by Liberty Partners, S.L.U. (sole shareholder of the Bank), due to the application of the Group of fiscal consolidation with effect January 1, 2018.

The balance of "Tax Liabilities - Current Tax Liabilities" in the accompanying balance sheets includes mainly the income tax payable generated in Italy and Luxembourg.

The balance of the "Tax liabilities - deferred tax liabilities" caption in the accompanying consolidated financial statements corresponds almost entirely to the amortization of the intangibles arising from the purchase of the Finamatrix Group (see Note 1-d).

At 31 December 2018 and 2017, 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 1,089 thousand and EUR 1,530 thousand, respectively. Also, as of December 31, 2018, the Bank has taxable balances pending to be offset from the Singapore branch amounting to 2,783 thousand euros. In both cases, they are negative taxable bases without a time limit of reversal, which, applying the principle of prudence, have not been activated by the Group, given that there is no certainty about the time of their possible recovery as the recovery of the same ones depend on obtaining future fiscal benefits individually by the Branch of London and of Singapore.

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.

12.3 Years open for review by the tax authorities

In accordance with current legislation, tax returns can not be considered definitive until they have been inspected by the tax authorities or until the corresponding statute of limitations has elapsed. Therefore, as of December 31, 2018, the Bank and the consolidated companies were open to inspection by the tax authorities, the taxes applicable to them for their activity with respect to those that, at that date, had not

elapsed the period established by the corresponding regulations for their revision, which, in the case of Spanish regulations, is four years from the end of their voluntary declaration period.

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, there are no pending payment as of December 31, 2018.

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 2018 and 2017 is as follows:

	Thousands of Euros			
	Assets		Liabilities	
	2018	2017	2018	2017
Sundry accounts	908	3,419	340	565
Accrued expenses (*)	-	-	14,198	15,597
Accrued fees and commissions on the marketing of units in collective investment undertakings (Notes 22 and 23)	303,326	302,404	257,768	256,590
Other revenues outstanding until expiration	3,434	-	-	-
Prepaid expenses	866	566	-	-
	308,534	306,389	272,306	272,752

(*) At 31 December 2018 and 2017, this item included EUR 10,523 thousand and EUR 7,795 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 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Financial liabilities at amortised cost:		
Deposits from credit institutions	278,137	179,532
Deposits from customers	452,098	616,777
Other financial liabilities	167,687	171,416
	897,922	967,725

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 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Type:		
Demand accounts	278,137	179,532
	278,137	179,532
Currency:		
Euros	202,064	125,465
Foreign currencies	76,073	54,067
	278,137	179,532

Note 27 contains a detail of the terms to maturity of these liabilities at 2018 and 2017 year-end and of the average annual interest rates in 2018 and 2017, 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 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Type:		
Demand accounts	452,098	616,777
	452,098	616,777
Currency:		
Euros	335,864	514,369
Foreign currencies	116,234	102,408
	452,098	616,777

The balance of "Deposits from customers" included current accounts held by the non-resident sector, for an amount of EUR 439,856 thousand and EUR 591,749 thousand as at 31 December 2018 and 2017, respectively.

Note 27 contains a detail of the terms to maturity of these liabilities at 2018 and 2017 year-end and of the average annual interest rates in 2018 and 2017, 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 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Tax collection accounts	20,169	15,571
Special accounts	87,824	113,579
Payment obligations (*)	35,052	18,616
Other	24,642	23,650
	167,687	171,416

(*) Includes EUR 9,831 thousand and EUR 16,519 thousand relating to accrued fees and commissions payable at 31 December 2018 and 2017, respectively (see Note 23). It also includes EUR 34 thousand relating to the amounts not yet contributed at 31 December 2018 to the Group employees' defined contribution plans (2017: EUR 28 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.

Also, "Payment obligations" includes the dividend payable (see Note 4) and the account payable to Liberty Partners, S.L.U. (sole shareholder) as a result of tax consolidation (see Note 12).

Note 27 contains a detail of the terms to maturity of these liabilities at 2018 and 2017 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.

	Days	
	2018	2017
Average period of payment to suppliers	24	27
Ratio of transactions settled	24	28
Ratio of transactions not yet settled	22	10

	Thousands of Euros	
	2018	2017
Total payments made	22,386	19,464
Total payments outstanding	1,414	1,265

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.

"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 2018 and 2017 amounted to EUR 272,312 thousand and EUR 215,155 thousand, respectively. The balance of "Shareholders' Equity" at 31 December 2018 and 2017 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 2018 and 2017 are presented in the accompanying consolidated statements of changes in total equity for 2018 and 2017.

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).

On 21 November 2017, AFB SAM Holdings, S.L. (a company 50.50% owned by Banco Santander, S.A.) and Eurizon Capital SGR S.p.A. (a company belonging to the Intesa Sanpaolo Group) sold to Liberty Partners, S.L.U. (previously named Adubala ITG, S.L.U., a company belonging to the Hellman & Friedman Group) the 450,677 shares of the Bank (representing all of its share capital) that each of the two companies held.

As a result of the foregoing, at 31 December 2018 and 2017, 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, with Liberty Partners, S.L.U as the Bank's sole shareholder.

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 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Retained earnings:		
Legal	5,408	5,408
Capitalisation reserve	4,636	4,636
To voluntary reserves	147,955	98,071
Reserves at subsidiaries-	30,115	21,363
<i>Allfunds Bank International, S.A.</i>	<i>38,723</i>	<i>25,315</i>
<i>Allfunds International, Schweiz AG</i>	<i>(8,498)</i>	<i>(3,890)</i>
<i>Allfunds Bank Brasil Representações Ltda.</i>	<i>(110)</i>	<i>(62)</i>
	188,114	129,478

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 2018 and 2017, 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 2018 and 2017 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 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Available to third parties:		
Credit institutions	41,143	40,600
Other resident sectors	1,149	1,300
Other non-resident sectors	11,585	11,350
	53,877	53,250

Also, at 31 December 2018, the Group held off-balance-sheet funds under management relating to units in collective investment undertakings (CIUs) amounting to EUR 348,685 million (31 December 2017: EUR 358,459 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 2018 and 2017, maturing in less than twelve months, is as follows:

	Thousands of Euros	
	2018	2017
Unmatured foreign currency purchases and sales (*):		
Purchases	56,683	59,038
Sales	67,527	64,068

(*) 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 2018 and 2017 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 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Loans and advances to credit institutions	1,837	790
Loans and advances to customers income	281	9
	2,118	799

21. Interest expenses

"Interest expenses" in 2018 and 2017 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 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Deposits from credit institutions	812	220
Other	715	334
	1,527	554

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 2018 and 2017, is as follows:

	Thousands of Euros	
	2018	2017
Fee and commission income arising from:		
Marketing of products-		
Investment funds	1,277,608	987,110
Other	28,045	12,393
	1,305,653	999,503
Investment services-		
Administration and custody	2,111	1,918
	2,111	1,918
Other-		
Foreign exchange	19,123	14,023
Other fees and commissions	6,648	5,000
	25,771	19,023
	1,333,535	1,020,444

Fee and commission income arising in 2018 and 2017 from the distribution of units in collective investment undertakings amounted to EUR 1,277,608 thousand and EUR 987,110 thousand, respectively, of which EUR 310,559 thousand and EUR 302,983 thousand had not been received at 31 December 2018 and 2017, and were recognised under "Financial assets at amortised cost" 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 2018 and 2017, is as follows:

	Thousands of Euros	
	2018	2017
Fees and commissions assigned to:		
Third parties	1,197	1,131
Distributors	1,114,918	830,083
	1,116,115	831,214

The fee and commission expenses incurred in 2018 and 2017 in respect of fees and commissions paid to distributors amounted to EUR 1,114,918 thousand and EUR 830,083 thousand, respectively, of which EUR 267,599 thousand and EUR 273,109 thousand were payable at 31 December 2018 and 2017, 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 and gains or losses on financial assets not held for trading compulsorily measured at fair value through profit or loss, net

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

This includes the amount of the valuation adjustments of financial instruments, arranged by the Bank as an economic hedging of its foreign currency positions during the year ended 31 December 2018 and 2017 to hedge its foreign currency positions which amounted to EUR 140 thousand and EUR 139 thousand, respectively.

24.2 Gains or losses on financial assets not held for trading compulsorily measured at fair value through profit or loss, net

In 2018 the Bank bought and sold units in investment funds managed by BNP Paribas, Groupama and Bankia for EUR 100,000 thousand, EUR 100,000 thousand and EUR 60 thousand, respectively. These transactions gave rise to a loss of EUR 352 thousand, which was recognised under "Gains or losses on financial assets not held for trading compulsorily measured at fair value through profit or loss, net" in the accompanying statement of profit or loss (see Note 24.2).

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 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Wages and salaries	38,678	30,623
Social security costs	5,699	4,640
Termination benefits	548	139
Contributions to defined contribution pension funds (Note 2-m) (*)	742	630
Training expenses	350	227
Other staff costs	1,062	808
	47,079	37,067

(*) Includes the 2018 and 2017 contributions to the defined contribution pension plans, of which EUR 240 thousand and EUR 139 thousand related to the contributions made for the Bank's senior management in 2018 and 2017, respectively (see Note 5-c).

The average number of employees at the Group, by professional category, in 2018 and 2017 was as follows:

	Average Number of Employees	
	2018	2017
Senior executives	34	30
Other line personnel	399	308
General services personnel	13	10
	446	348

At 31 December 2018 and 2017, the number of employees at the Group, by professional category and gender, was as follows:

	2018		2017	
	Women	Men	Women	Men
Senior executives	7	30	8	24
Other line personnel	180	269	156	176
General services personnel	13	2	10	-
	200	301	174	200

At 31 December 2018 and 2017, the Bank's Board of Directors consisted of one woman and five men.

Also, it is hereby stated that in 2018 and 2017 the Bank had 6 employee with a disability equal to or greater than 33% (1 employee at 31 December 2017).

At 31 December 2018 and 2017, 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 2018 and 2017, 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 2018 and 2017, is as follows:

	Thousands of Euros	
	2018	2017
Property, fixtures and supplies (*)	7,603	7,204
Information technology	9,594	8,656
Communications	4,794	2,552
Advertising and publicity	1,089	741
Legal expenses and lawyers' fees	1,981	834
Technical reports	5,845	8,618
Surveillance and cash courier services	111	88
Insurance and self-insurance premiums	576	460
Governing and Control Bodies	84	56
Entertainment and staff travel expenses	2,715	2,199
Association membership fees	354	292
Subcontracted administrative services	6,326	4,830
Levies and taxes	1,233	1,096
Contributions to foundations	73	60
Other expenses	375	268
	42,753	37,954

(*) Includes lease expenses amounting to EUR 6,111 thousand (EUR: 5,484 thousand in 2017). -see Note 2-g-.

In 2018, "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	471
Other assurance services	113
Total audit and other assurance services	584
Total audit services and related	16
Other services	52
Total professional services	652

The services provided by the Groups'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 2018 amounting to EUR 264 thousand (2017: EUR 216 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 2018 and 2017, and of the average interest rates in both years is as follows:

2018

	Thousands of Euros							Average Annual Interest Rate (%)
	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)	711,426	-	-	-	-	-	711,426	0.03%
Financial assets at amortised cost (Note 7)-								
Loans and advances to Central Banks	-	6,508	-	-	-	-	6,508	-0.16%
Loans and advances to credit institutions	-	24,330	-	190,272	130,014	-	344,616	0.27%
Loans and advances to customers	31,682	31	22	203	783	41	32,762	1.24%
	743,108	30,869	22	190,475	130,797	41	1,095,312	
Liabilities:								
Financial liabilities at amortised cost (Note 14)-								
Deposits from credit institutions	278,133	4	-	-	-	-	278,137	0.31%
Customer deposits	452,098	-	-	-	-	-	452,098	0.03%
Other financial liabilities	147,518	20,169	-	-	-	-	167,687	0.00%
	877,749	20,173	-	-	-	-	897,922	

2017

	Thousands of Euros							Average Annual Interest Rate (%)
	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)	737,891	-	-	-	-	-	737,891	0.03%
Financial assets at amortised cost (Note 7)-								
Loans and advances to Central Banks	-	6,066	-	-	-	-	6,066	0.00%
Loans and advances to credit institutions	-	5,708	130,000	130,052	130,000	-	395,760	0.22%
Loans and advances to customers	2,238	8	16	101	371	116	2,850	0.00%
	740,129	11,782	130,016	130,153	130,371	116	1,142,567	
Liabilities:								
Financial liabilities at amortised cost (Note 14)-								
Deposits from credit institutions	179,532	-	-	-	-	-	179,532	0.01%
Customer deposits	616,777	-	-	-	-	-	616,777	0.00%
Other financial liabilities	155,846	15,570	-	-	-	-	171,416	0.00%
	952,155	15,570	-	-	-	-	967,725	

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 related party companies

The detail of the Group's most significant balances at 31 December 2018 and 2017 and of the results of the transactions performed in those years with related party companies (see Note 15) is as follows:

	Thousands of euros	
	2018	2017
	H&F Group and associates	H&F Group and associates
Assets:		
Loans and advances to credit institutions	-	-
Loans and advances to customers	-	-
Trading derivatives	-	-
Other assets	-	-
Liabilities:		
Deposits from credit institutions	-	-
Other financial liabilities	22,524	-
Trading derivatives	-	-
Other liabilities	-	-
Equity:		
Interim Dividend	(29,000)	-
Profit and loss:		
Debit-		
Fee expense	-	-
Commission expenses	-	-
Other administrative expenses	-	-
Haber-		
Fee income	-	-
Commission income	-	-
Other administrative income	-	-

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 2018 and 2017:

	Thousands of Euros			
	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash, cash balances at Central Banks and other demand deposits	711,426	711,426	737,891	737,891
Financial assets held for trading – Derivatives	353	353	479	479
Financial assets not designated for trading compulsorily measured at fair value through profit or loss	384	384	193	193
Financial assets at amortised cost	383,886	385,187	404,676	405,118
	1,096,049	1,097,350	1,143,239	1,143,681
Financial liabilities:				
Financial liabilities held for trading – Derivatives	213	213	340	340
Financial liabilities at amortised cost	897,922	897,922	967,725	967,725
	898,135	898,135	968,065	968,065

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.
- Financial assets not designated for trading compulsorily measured at fair value through profit or loss: the amount recognised in this line item relates to equity instruments not listed on organised markets and for which no other valid references for the estimation of fair value were available, as a result of which the Bank recognised them at cost in the balance sheet since it was not possible to estimate their fair value reliably. In these cases, the Bank estimated the potential impairment of these instruments on the basis of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement.
- Financial assets at amortised cost: the fair value of Financial assets at amortised cost 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.

The detail of the financial instruments held by the Group at 31 December 2018 and 2017 based on the method of measurement at fair value is as follows:

	Thousands of Euros					
	31-12-2018			31-12-2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets:						
Cash, cash balances at central banks and other demand deposits	711,426	-	-	737,891	-	-
Financial assets held for trading – Derivatives	-	353	-	-	479	-
Financial assets not designated for trading compulsorily measured at fair value through profit or loss (*)	-	-	-	-	-	-
Financial assets at amortised cost	-	-	385,187	-	-	405,118
	711,426	353	385,187	737,891	479	405,118
Financial liabilities:						
Financial liabilities held for trading - Derivatives	-	213	-	-	340	-
Financial liabilities at amortised cost	-	-	897,922	-	-	967,725
	-	213	897,922	-	340	967,725

(*) Does not include equity instruments valued at cost

There are equity instruments in the Group that, as they correspond to shares in unlisted entities that are not listed on organized markets and do not have other valid references for this estimate, have been recorded at cost in the balance sheet because it has not been possible to estimate reliably its fair value. As of December 31, 2018 and 2017, the balance of these equity instruments amounted to 384 and 193 thousand euros, respectively. In these cases, the Group has estimated the potential deterioration of the same from the net equity of the Company corrected for the tacit capital gains existing at the valuation date.

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 2018 and 2017, the main asset positions held by the Group related to balances with financial institutions located in the European Union of an eminently transitional nature associated with its activity, with non-performing balances representing 0.06% and 0.02%, respectively, of its assets at those dates, the coverage ratio of those balances being 76% and 62%, 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 2018 and 2017, 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, establishing alerts and consumption indicators as limits in accordance with the internal methodology described above. The control 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 Bank's Board of Directors has established conservative criteria for the management and dilution of losses stemming from liquidity risk. Liquidity risk management is duly instrumented and documented, and is also fully compliant with the applicable legislation on liquidity. The Bank periodically prepares various regulatory reports relating to liquidity, such as the LQ statements, the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR) and the Additional Liquidity Monitoring Metrics (ALMM), as well as the liquidity stress tests as part of the Internal Capital Adequacy Assessment Process (ICAAP), in order to measure the adequacy of the Bank's capital and liquidity to carry on its business activity in normal markets conditions and in stress situations.

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 2018 the professional indemnity insurance and employee fidelity insurance policies amounts were increased.

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

Following is the detail, at 31 December 2018 and 2017, of the information on risk concentration, broken down by geographical area and business segment of the Bank's counterparties at those dates, which includes the "Near-Cash Balances at Central Banks and Other Demand Deposits", "Financial Assets Held for Trading", "Financial assets not designated for trading compulsorily measured at fair value through profit or loss" and "Financial Assets at Amortised Cost" line items.

31 December, 2018

	Thousands of Euros				
	Spain	Other EU Countries	America	Rest of the World	Total
Central Banks and Credit Institutions	409,912	597,156	41,033	14,618	1,062,719
Public sector – Central government	-	-	-	-	-
Other financial institutions	5,816	24,984	1,132	338	32,270
Non-financial companies and individual entrepreneurs-	395	2	-	199	596
<i>Other purposes – SMEs and individual entrepreneurs</i>	395	2	-	199	596
Other households and NPISH- (*)	420	26	-	-	446
<i>Consumer loans</i>	420	-	-	-	420
<i>Other purposes</i>	-	26	-	-	26
Total	416,543	622,168	42,165	15,155	1,096,031

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

31 December 2017

	Thousands of Euros				
	Spain	Other EU Countries	America	Rest of the World	Total
Central Banks and Credit Institutions	426,620	633,047	69,158	11,108	1,139,933
Public sector – Central government	-	-	-	-	-
Other financial institutions	21	1,938	352	69	2,380
Non-financial companies and individual entrepreneurs-	139	1	-	129	269
<i>Other purposes – SMEs and individual entrepreneurs</i>	139	1	-	129	269
Other households and NPISH- (*)	341	17	-	-	358
<i>Consumer loans</i>	341	-	-	-	341
<i>Other purposes</i>	-	17	-	-	17
Total	427,121	635,003	69,510	11,306	1,142,940

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

31 December 2018

	Thousands of Euros			
	Cantabria	Valencian Community	Madrid	Total Spain
Central Banks and Credit Institutions	100,439	131,527	177,946	409,912
Other financial institutions	-	-	5,816	5,816
Non-financial companies and individual entrepreneurs-	-	-	395	395
<i>Other purposes – SMEs and individual entrepreneurs</i>	-	-	395	395
Other households and NPISH:(*)	-	-	420	420
<i>Consumer loans</i>	-	-	420	420
<i>Other purposes</i>	-	-	-	-
	100,439	131,527	184,577	416,543

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

31 December 2017

	Thousands of Euros			
	Cantabria	Valencian Community	Madrid	Total Spain
Central Banks and Credit Institutions	112,269	260,000	54,351	426,620
Other financial institutions	-	-	21	21
Non-financial companies and individual entrepreneurs-	-	-	139	139
<i>Other purposes – SMEs and individual entrepreneurs</i>	-	-	139	139
Other households and NPISH:(*)	-	-	341	341
<i>Consumer loans</i>	-	-	341	341
<i>Other purposes</i>	-	-	-	-
	112,269	260,000	54,852	427,121

(*) 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 2018 and 2017

31 December 2018

Entity	Location/ Registered Office	Line of Business	Audit/ Review	Ownership Interest	Thousands of Euros		
					Company Data		
					Share Capital	Reserves	Profit (Loss)
Allfunds Bank International, S.A. (*)	Luxembourg	Institutional brokerage services for the purchase and sale of units in collective investment undertakings	Audited	100%	15,000	19,998	7,319
Allfunds Nominee, Limited	United Kingdom	Asset holding	Not audited	100%	1	-	-
Allfunds Bank Brasil Representações Ltda.	Brazil	Representation services	Not audited	100%	1,043	(110)	(342)
Allfunds International, Schweiz AG	Switzerland	Distribution of collective investment undertakings	Limited Review	100%	2,060	2,298	329
Fintech Partners, S.L.	Spain	Activities of holding companies	Not audited	100%	227	25	1,071
Finamatrix, S.L.U.	Spain	Computer programming activities	Not audited	100%	3	525	405
Nextportfolio, S.L.U.	Spain	Computer programming activities	Not audited	100%	10	302	54
Allfunds Hong Kong Limited (**)	Hong Kong	Without activity	Not audited	100%	-	-	-

(*) Through this Company, a 100% ownership interest is held in the share capital of Allfunds International, Schweiz AG, as well as a 0.01% ownership interest held in the share capital of Allfunds Bank Brasil Representações LTDA.

(**) Society incorporated in April 2018. At the date of authorisation for issue of these consolidated financial statements, the disbursement of the capital amounting to HKD 1 thousand (EUR 103) is pending.

31 December 2017

Entity	Location/ Registered Office	Line of Business	Audit/ Review	Ownership Interest	Thousands of Euros		
					Company Data (*)		
					Share Capital	Reserves	Profit (Loss) 2017
Allfunds Bank International, S.A. (*)	Luxembourg	Institutional brokerage services for the purchase and sale of units in collective investment undertakings	Audited	100%	15,000	14,873	5,125
Allfunds Nominee, Limited	United Kingdom	Asset holding	Not audited	100%	1	-	-
Allfunds Bank Brasil Representações Ltda.	Brazil	Representation services	Not audited	100%	225	(62)	(48)
Allfunds International, Schweiz AG	Switzerland	Distribution of collective investment undertakings	Limited review	100%	2,060	1,916	382

(*) 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 2018 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	-	3
Dubai (EAU)	-	4
Colombia	-	3
Singapore	-	16
Brasil	-	1
Spain	123	320
Italy	73	61
Luxembourg	25	35
United Kingdom	14	49
Switzerland	3	9
Total	238	501
Consolidation adjustments	(17)	
Allfunds Bank Group	221	

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 2018 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 2018 year-end.

The consolidated income statement for the year ended 31 December 2018 includes profit before tax for the Allfunds Bank Group of EUR 125 million and income tax of EUR 39 million:

Jurisdiction	Millones de Euros	
	Profit Before Tax	Income Tax
Spain	65	19
Italia	53	17
Luxembourg	10	3
United Kingdom	1	-
Singapore	(4)	-
Total	125	39
Consolidation adjustments	-	
Consolidated Allfunds Bank Group	125	

At 31 December 2018, the Group's return on assets (ROA) was estimated at 5.95%.

The Allfunds Bank Group did not receive any public aid in 2018.

Allfunds Bank Group

Consolidated Directors' Report for the year ended 31 December 2018

Allfunds Bank Group

The consolidated financial statements of the Allfunds Bank Group ("the Group") for 2018 consist of the consolidated balance sheet, consolidated statement of profit or loss, and 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 2018

In 2018 the Group obtained net profit amounting to EUR 86,157 thousand, up 14.48 % on the previous year. Fee and commission income was the largest revenue item; It increased by 13.64% in net terms due to the increase in the volume of assets under management compared with 2018.

The distribution, by geographical area, of customer positions at 31 December 2018 is as follows:

Geographical Area	Millions of Euros
Continental Europe, except Spain and Portugal	205,669
Spain and Portugal	98,721
UK and Ireland	31,727
Latin America	6,465
Middle East	6,103

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 54% at 31 December 2018.

The foreign CIU market in Spain had increased by 7% to EUR 168,000 million at 2018 year-end, compared with EUR 157,000 million at 2017 year-end. In the Spanish market, Allfunds surpasses the 54% market share in intermediation of international funds. Outside the Spanish market, it outstands the 33% of the Italian market share at 31 December 2018.

Economic environment

During the year 2018, the pace of the expansion of the world economy has strengthened as it has reached a rate of 3.7%, which represents an acceleration compared to 3.0% in fiscal year 2017 and constitutes the highest growth rate registered worldwide since 2011. On a global scale, the growth forecast expected in 2019 and 2020 will remain around 3.5% and 3.6% respectively.

Therefore, the world economy continues to expand, but the growth in some economies, in the third and fourth quarter of 2018 weakened considerably, such as Germany or Japan, where various events slowed activity. Additionally, the weakening of the attitude in the financial markets has been the common factor

that explains the stagnation of the growth of most of the economies, in addition to the uncertainty surrounding trade policies and the concerns about China's prospects. Specifically, growth in advanced economies is estimated to slow from a rate of 2.3% in 2018 to 2.0% in 2019 and 1.7% in 2020.

It is estimated that growth in the euro area will moderate from 1.8% in 2018 to 1.6% in 2019 and 1.7% in 2020. Growth rates have suffered downward revisions in most of the countries' economies, particularly in Germany, Italy and France. There is also much uncertainty surrounding the estimated growth projections for 2019 and 2020 of 1.5% for the United Kingdom, because the negative effect of the prolonged uncertainty with respect to the Brexit result is considered to be offset by the impact positive of the fiscal stimulus announced in the 2019 budget. This projection assumes that an agreement will be reached for the Brexit in 2019 and that the country is gradually adapting to the new regime. However, the definitive form of Brexit remains very uncertain.

The growth forecast for the United States is a decrease in the growth rate to 2.5% in 2019 and subsequently to a rate of 1.8% in 2020, as the fiscal stimulus retreats. The strong projected growth of domestic demand will lead to an increase in imports and help to widen the deficit in the country's current account.

Japan's economy will grow 1.1% in 2019 mainly due to the additional fiscal support it will receive in the course of this year, which includes measures to mitigate the effects of the increase in the rate of consumption tax expected for the month of October. Growth is projected to moderate at a rate of 0.5% in 2020 after the application of mitigation measures

Growth in Asia's emerging economies will fall from 6.5% in 2018 to 6.3% in 2019 and 6.4% in 2020. Despite the fiscal stimulus that partly neutralizes the impact of the rise in United States tariffs, China's economy will slow down due to the combined influence of tougher financial regulations and trade tensions with the United States. Growth in the emerging and developing economies of Europe in 2019 will weaken more than expected, at a rate close to 0.7% despite a generally dynamic growth in Central and Eastern Europe, before moving on to 2.4% recovery in 2020.

In Latin America, growth is projected to rebound in the coming years, from 1.1% in 2018 to 2.0% in 2019 and 2.5% in 2020. The downward revisions with respect to the previous projections are mainly due to the prospects of lower growth in Mexico, due to the decrease in private investment in the area and the much more severe contraction in Venezuela. The cuts are only neutralized by an upward revision of the 2019 forecast for Brazil, where recovery is expected to continue gradually.

Growth in the Middle East, North Africa, Afghanistan and Pakistan region is expected to remain at a moderate level of 2.4% in 2019, and then rebound to around 3% in 2020. Multiple factors weigh on prospects of the region: a weakened growth of oil production, a tightening of financing conditions, sanctions imposed by the United States and strong geopolitical tensions in several economies in the area.

A slight increase in interest rates is forecast during the next two years according to the most recent projection. In 2019, in the Euro Zone the twelve-month EURIBOR will be in a range of -0.10 pp and 0.20 pp and in 2020 a higher increase is forecast, reaching a minimum of 0.40 pp and a maximum of 0, 70 pp. The interest rate of US federal funds will reach levels of 2.5% in 2019 and 3.1% in 2020.

In recent months, inflation has remained broadly contained in the most advanced economies, but has risen slightly in the United States. In emerging economies, however, inflationary pressures are easing due to lower oil prices.

Growth outlook

The outlook for global GDP is for growth of 3.5% and 3.6% in 2019 and 2020, respectively. However, there are a number of risks for these projections, mainly due to the tension in commercial relations and the direction in which the financial market has turned in recent months. In addition to these factors, there are others, which exacerbate the downside risk of investment and global growth, such as uncertainty about the policy agenda of new governments.

Economic activity in the Euro Zone is characterised by high economic and political uncertainty. The bases that sustain the growth of the area remain fragile and rely on a large extent on the action of monetary policy. This diagnosis is reflected in the macroeconomic projections of the area, which anticipates a path of stable growth but lower than previous projections for the whole area with growth rates of 1.6% in 2019 and 1.7% in 2020. Additionally, for all the countries of the European Union, there is additional uncertainty regarding the estimated growth projection in the United Kingdom in the next two years, mainly due to the prolonged uncertainty with respect to Brexit and the manner in which it can affect the rest of countries. Considering the Spanish case, GDP growth is estimated to be above the average of the Euro Zone close to 2.2% and 1.9% in 2019 and 2020 respectively, but lower compared to the growth of the previous year (2.5% growth in 2018).

On the other hand, the emerging and developing economies have been put to the test by the difficult external conditions of the last months of the 2018 fiscal year, amid the increase in commercial tensions, the higher interest rates of the United States, the appreciation of the dollar, the outflow of capital and the volatility of oil prices. On the other hand, they are expected to expand by 4.5% in 2019 and 4.9% in 2020, compared to 4.5% in 2018.

Transaction performance

In 2018, the focus remained on the objectives set in previous years:

- Provide a greater role to Allfunds International, S.A., in its objective of complementing the Bank in those countries where it has no permanent establishment.
- To boost commercial activity in those European markets where the Bank's presence is not significant (the UK, Switzerland, Central Europe and the Nordic markets).
- To strengthen its commercial presence in the Latin American area through various representative offices in the region (Brazil, Colombia and Chile); highlighting the consolidation of the new representative office in Brazil and increasing its customer base in the region.
- Start operational and commercial activity in the Asian region after having established an operational center in Singapore with the proper licenses to operate by the Central Bank of Singapore (Monetary Authority of Singapore) in 2016.
- Continue to increase the number of investment fund distribution agreements entered into with customers in all the markets in which the Bank operates. In 2018, it increased in 56 new commercial agreements, reaching a total of 623 at the end of the year, with clients operating in 45 different countries.
- Expand the financial products available to our clients, including the development of a new platform of ETFs available to our institutional clients.
- Continue signing contracts with the most important management funds in the world in order to provide customers a wide range of products. During the period, 757 more managers have been reached with fully automated access, adding a total of 76,000 investment funds in our platform.

- Constant improvement of our platform, investing resources in increasing the level of automation and reliability of our services to clients.
- Allfunds is working on digital solutions and tools with the aim of helping our institutional clients in the challenges of the new digital era. In 2018 important technological developments were undertaken aimed at the development of new digital solutions for our customers. Highlight the acquisition of Finametrix, a technology company with a wide range of solutions for financial institutions. From Allfunds we rely on the digital capabilities that this acquisition entails, both at the level of existing products and future developments.

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:

- The direct distribution of funds (Retail and Portfolios) represented 45.5% compared to 44% in 2017
- The CIU channel, comprising funds of funds, open-end investment companies (SICAVs) and pension funds, represented 21% of the total traded volume, compared to 22% in 2017.
- The percentage of structured products, which include investment funds as underlying, remains at 0.2% compared to 0.3% the previous year.
- The insurance channel increases until the 24% of the total traded volume, compared to 21% in 2017.
- Lastly, the channel corresponding to Omnibus accounts represented 9.4% of the intermediated volume compared to 13% in 2017.

Consolidated balance sheet

As of December 31, 2018, the commissions pending collection and payment amount to EUR 310,559 and 267,599 thousands, respectively, which means a 2.51% increase in collections and a 2.02% decrease in payments with respect to fiscal year 2017, respectively.

At 31 December 2018, the Group's total assets amounted to EUR 1,447,253 thousand, which represents a decrease of 1.19% with respect to 2017 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 710,743 thousand, i.e. 10.19% less than the previous year.

Intangible assets amounted to EUR 25.497 thousand, which is an increase of 238.11% compared to 2017. This is mainly due to the goodwill generated and the intangible assets derived from the acquisition of Fintech Partners, S.L., as well as a greater investment in new computer developments.

Tangible assets (furniture, IT equipment and fixtures) net of depreciation, amounted to EUR 8,931 thousand, representing a 28.30% increase, as result of the refurbishment of the new branch in Madrid.

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 2018, the balance held in these accounts amounted to EUR 730,232 thousand, i.e. 8.30% less than the previous year.

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 decrease by 22.68% on 2017, as a result of the higher volume of brokered transactions. At 31 December 2018, this amount was EUR 87,824 thousand.

Earnings

The net profit obtained by the Group amounts to EUR 86,157 thousand at the end of the year, being 14.48% higher than at the end of the 2017 financial year.

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

	Thousand of euros
Allfunds Bank, S.A.U.	79,293
Allfunds Bank International, S.A.	7,319
Allfunds International, Schweiz AG	329
Allfunds Bank Brasil Representações LTDA	(342)
Fintech Partners, S.L.	1,071
Finamatrix, S.L.U.	405
Nextportfolio, S.L.U.	54

Net interest income increased 141.22% in respect 2017 to EUR 591 thousand, as a result of the higher return earned due to the increase in interest rates.

Net fee and commission income amounted to EUR 217,420 thousand, which represents an increase of 14.90% compared to 2017. The 83.62% in 2018 and 82.98% in 2017 of these fees and commissions are related to the intermediation in the distribution of shares and participations in CIUs.

Administrative costs, which comprise staff costs and other general administrative expenses, amounted to EUR 89,832 thousand, 19.74% more than in 2017. Most of this increase is due to the increased of the systems maintenance costs, the new hires in all the regions of the Group, as well as the increase in costs due to the increase of the CPI.

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.

The volume of patrimony of clients intermediated as of December 31, 2018 amounts to EUR 348,685 million, which represents a decrease of 2.73%.

Share capital and treasury shares

As of December 31, 2018, the Bank's share capital amounted to EUR 27,040,620, represented by 901,354 registered shares, each with a par value of EUR 30, fully subscribed and paid.

At current date, the owner of the Bank is Liberty Partners, S.L.U. (previously named Adubala ITG, S.L.).

During the year 2018, no transactions were carried out on own shares or treasury stock.

Research and development policy

The Bank initiated new technological developments in the computer platform in 2018 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:

- Necessary adaptations to comply with the MIFID regulations (ex ante / ex post reporting) and offer solutions to clients within the regulatory framework.
- Development of an internal solution focused on optimizing the migration process of clients to the platform.
- Global improvements in the Cut-off time of the managers.
- Adaptations in internal tools for the ETF product.

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 activity are the following: operational risk, liquidation, liquidity, credit, interest and market risk. The Entity has established a series of procedures to identify, evaluate, monitor, manage, mitigate and validate these risks that respond to risk aversion established by the Bank's Board of Directors as the highest governing body.

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

The actions undertaken by the Group with regard to the management of these risks are described in Note 30 to the Annual Accounts Report.

Outlook

The Group's management policy for 2019 includes the following aims:

- Continue with the increase in the number of clients, the intermediated volume and the percentage of market share in the commercialization of foreign UCIs in the different markets in which they have a presence.
- Promote the use of other investment instruments such as ETFs, instruments that have great appeal among passive management investors.

- Increase the presence in new markets considered as strategic in the Bank's business plan (the UK market, Benelux, the Nordic countries and Central Europe).
- Continue commercial activity in the Asian markets (mainly Singapore, Hong Kong and Taiwan), supported by the recent opening of the Singapore branch.
- Open representative offices in new markets in order to obtain a larger market share and offer a better service to customers who demand more local attention.

The Bank's directors estimate that the current business plan will enable the Bank to meet the budgets agreed upon for 2019 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 2018 was 24 days, which was less than the maximum period established in the applicable legislation (see Note 14.3).

Events after the reporting period

On March 24th 2019, Allfunds Bank S.A.U. entered into a definitive agreement to acquire Nordic Fund Market ("NFM") through the purchase of 100% of the shares in Nasdaq Broker Services AB from its shareholder Nasdaq Technology AB. NFM is one of the major providers of fund services in Sweden. The company holds an Investment Firm license in Sweden, is regulated by Swedish Finansinspektionen and is also authorized to operate in Finland and Norway on a cross border basis. The transaction remains subject to customary regulatory approvals and is expected to close during 2H2019.