Avalis de Catalunya, Sociedad de Garantía Recíproca

Directors' Report
2017

(With Auditor's Report Thereon)

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

KPMG Auditores, S.L.
Torre Realia
Plaça d'Europa, 41-43
08908 - L'Hospitalet de Llobregat
Barcelona

Independent Auditor's Report on the Annual Accounts

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

To the Members of Avalis de Catalunya, S.G.R.

Opinion

We have audited the annual accounts of Avalis de Catalunya, S.G.R. (the "Company"), which comprise the balance sheet at 31 December 2017, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Annual Accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual accounts in Spain pursuant to the legislation regulating the audit of accounts. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

Most Relevant Aspects of the Audit

The most relevant aspects of the audit are those that, in our professional judgement, have been considered as the most significant risks of material misstatement in the audit of the annual accounts of the current period. These risks were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these risks.

Impairment due to credit risk in the portfolio of financial and technical guarantees and doubtful receivables from members (see notes 4(d).3, 8 and 16)

Description

Calculating impairment due to credit risk relating to outstanding exposure through financial and technical guarantees and doubtful receivables from members is one of the most significant and complicated estimates the Company must make when drawing up its annual accounts.

The assessment of impairment due to credit risk is based on calculations and estimates performed by the Company, considering elements such as the identification and classification of outstanding exposure through financial and technical guarantees and doubtful receivables from members. The Company also uses significant assumptions, current market trends and analysis of historical aggregate bad debts.

In view of the aforementioned judgement and complexity factors, we understand that the process of estimating impairment due to credit risk in the portfolio of financial and technical guarantees and doubtful receivables from members is a significant risk, which has therefore been considered a relevant aspect of the audit.

Our response

Our audit procedures included gaining an understanding of the Company's control environment with regard to the process of monitoring outstanding exposure through financial and technical guarantees and doubtful receivables from members, for which we focused on reviewing the Company's assessment of risks and monitoring alerts, as well as evaluating the borrower review process aimed at determining their classification and the impairment to be recognised.

We also performed the following substantive procedures, inter alia, in relation to the estimation of impairment:

– we reviewed a sample of borrowers to assess whether they had been suitably classified;

– we recalculated the provisions recognised by the Company;

– we validated the correct functioning of the calculation engine and reviewed key factors for a sample therein (borrower risk segmentation, percentages covered and counter-guaranteed, default dates and discounting of collateral and guarantees).

We also assessed whether the information on impairment due to credit risk in the portfolio of financial and technical guarantees and doubtful receivables from members disclosed in the annual accounts meet the requirements of the applicable financial reporting framework.

Other Information: Directors' Report

Other information solely comprises the 2017 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility for the directors' report, in accordance with the requirements of prevailing legislation regulating the audit of accounts, consists of assessing and reporting on the consistency of the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned annual accounts and without including any information other than that obtained as evidence during the audit. It is also our responsibility to assess and report on whether the content and presentation of the directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described in the preceding paragraph, the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2017 and the content and presentation of the report are in accordance with applicable legislation.

Directors' Responsibility for the Annual Accounts

The Directors are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of the Company in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts 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 prevailing legislation regulating the audit of accounts 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 economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts 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 annual accounts, 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 entity's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

– Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 annual accounts 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 Company to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Directors of the entity 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.

From the significant risks communicated to the Directors of Avalis de Catalunya, S.G.R., we determine those that were of most significance in the audit of the annual accounts of the current period and which are therefore the most significant risks.

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

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Fernando Renedo Avilés
On the Spanish Official Register of Auditors ("ROAC") with No. 22478

6 April 2018

AVALIS DE CATALUNYA, S.G.R.

BALANCE SHEETS AT 31 DECEMBER 2017 AND 2016

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

ASSETS	Euros	
	31/12/2017	31/12/2016 (*)
ASSETS		
Cash (Note 9)	**2,927,888**	**2,606,824**
Trade and other receivables	**28,858,100**	**28,144,044**
Doubtful receivables from members (Note 8)	16,532,108	15,523,076
Sundry receivables (Note 7)	11,959,774	12,107,045
Public entities, other (Note 15)	327,199	474,417
Other receivables (Note 7)	39,020	39,506
Investments (Note 9)	**53,809,782**	**52,515,196**
Equity instruments	1,832	1,832
Debt securities	38,193,560	29,944,947
Time deposits at credit institutions	15,614,390	22,568,417
Non-current assets held for sale (Note 11)	**1,283,458**	**1,634,316**
Property and equipment (Note 6)	**67,899**	**82,868**
Technical installations and other items	67,899	82,868
Intangible assets (Note 5)	**169,440**	**141,010**
Other assets	**191,789**	**264,672**
TOTAL ASSETS	**87,308,355**	**85,388,930**
MEMORANDUM ITEMS		
Outsatnding Risk through financial and technical guarantees extended (Note 16)	**390,032,709**	**380,870,112**
Financial guarantees	338,030,179	329,223,211
of which: doubtful	29,941,685	28,400,054
Other guarantees	52,002,530	51,646,901
of which: doubtful	1,861,575	3,026,201
Other counter-guaranteed risks and assets	**207,487,848**	**201,739,252**
of which: doubtful financial and technical guarantees	15,599,204	15,072,710
of which: doubtful receivables from members	11,765,142	10,864,383
of which: foreclosed assets	774,291	1,176,384

LIABILITIES AND EQUITY	Euros	
	31/12/2017	31/12/2016 (*)
LIABILITIES	**52,498,094**	**50,590,669**
Trade and other payables (Note 12)	**814,264**	**803,421**
Sundry payables	743,784	737,553
Current tax liabilities (Notes 12 and 15)	70,480	65,868
Payables (Note 13)	**2,912,096**	**3,933,816**
Security and other deposits received	1,569,239	1,676,072
Counter-guarantors	42,010	29,364
Other payables	1,300,847	2,228,380
Liabilities associated with financial and technical guarantees (Note 14)	**13,266,815**	**13,416,349**
Financial guarantees	12,816,045	12,870,592
Other guarantees	450,770	545,757
Provisions (Note 8)	**9,245,461**	**9,069,538**
Provisions for financial and technical guarantees	9,245,461	9,069,538
Other provisions	-	-
Technical provisions. Collective coverage of all transactions (Note 10.c)	**8,880,658**	**6,550,346**
Other liabilities	-	-
Capital repayable on demand (Note 4.l)	**17,378,800**	**16,817,200**
EQUITY	**34,810,261**	**34,798,261**
Shareholders' equity (Note 10.a)	**18,515,045**	**18,515,045**
Capital (Note 4.l)	**19,000,000**	**19,000,000**
Subscribed capital (Note 10.a)	36,379,800	35,830,200
Patron members	18,492,200	19,305,600
Participating members	17,887,600	16,524,600
Less: uncalled capital	(1,000)	(13,000)
Less: capital repayable on demand	(17,378,800)	(16,817,200)
Reserves (Note 10.b)	**207,398**	**124,911**
Prior years' losses (Note 3)	**(692,352)**	**(774,838)**
Profit/(loss) for the year (Note 3)	-	**164,973**
Technical provisions. Contributions from third parties (Note 10.c)	**16,295,216**	**16,283,216**
TOTAL LIABILITIES AND EQUITY	**87,308,355**	**85,388,930**

(*) Presented solely and exclusively for comparison purposes

The accompanying notes 1 to 19 form an integral part of the annual accounts for the year ended 31 December 2017

AVALIS DE CATALUNYA, S.G.R.

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

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

	Euros	
	2017	**2016 (*)**
Revenues (Note 18.a)	**6,378,074**	**6,359,881**
Revenues from financial and technical guarantees	6,374,474	6,356,281
Revenues from services rendered	3,600	3,600
Other operating income	**1,674**	**6,351**
Personnel expenses (Note 18.b)	**(1,691,752)**	**(1,687,298)**
Salaries, wages and similar	(1,289,999)	(1,320,735)
Employee benefits expense	(401,752)	(366,563)
Other operating expenses (Note 18.c)	**(942,157)**	**(912,819)**
Fee and commission expenses	(35,146)	(26,310)
Other operating expenses	(907,011)	(886,509)
Provisions for financial and tecnical guarantees (net) (Notes 8 and 18.d)	**(58,405)**	**232,041**
Impairment of doubtful receivables from members (net) (Notes 8 and 18.d)	**(2,143,451)**	**(2,713,937)**
Technical provisions. Collective coverage of all transactions (net) (Note 18.d)	**(2,330,313)**	**(1,950,229)**
Technical provisions. Contributions from third parties used (Note 18.d)	**-**	**-**
Depreciation and amortisation (Notes 5 and 6)	**(66,913)**	**(57,914)**
Impairment and gains/(losses) on disposal of fixed assets (Note 11)	**-**	**20,643**
Impairment and gains/(losses) on non-current assets held for sale (net) (Notes 11 and 18.d)	**153,232**	**(198,434)**
RESULTS FROM OPERATING ACTIVITIES	**(700,010)**	**(901,715)**
Finance income (Notes 9 and 18.f)	**947,053**	**1,179,198**
Finance costs (Notes 9 and 13)	**(193,244)**	**(277,483)**
NET FINANCE INCOME	**753,807**	**901,715**
PROFIT/(LOSS) BEFORE TAX	**53,797**	**-**
Income tax (Note 15)	(53,797)	164,973
PROFIT/(LOSS) FOR THE YEAR	**-**	**164,973**

(*) Presented solely and exclusively for comparison purposes

The accompanying notes 1 to 19 form an integral part of the annual accounts for the year ended 31 December 2017

AVALIS DE CATALUNYA, S.G.R.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

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

	Euros	
	2017	**2016 (*)**
PROFIT/(LOSS) FOR THE YEAR	**-**	**164,973**
Income and expense recognised directly in equity	**12,000**	**6,000**
Valuation adjustments	**-**	**-**
Available-for-sale financial assets	-	-
Other	-	-
Technical provisions. Contributions from third parties (Note 10.c)	12,000	6,000
Tax effect	**-**	**-**
Amounts transferred to the income statement	**-**	**-**
Valuation adjustments	-	-
Available-for-sale financial assets	-	-
Other	-	-
Technical provisions. Contributions from third parties	-	-
Tax effect	**-**	**-**
TOTAL RECOGNISED INCOME AND EXPENSE	**12,000**	**170,973**

(*) Presented solely and exclusively for comparison purposes

The accompanying notes 1 to 19 form an integral part of the annual accounts for the year ended 31 December 2017

AVALIS DE CATALUNYA S.G.R

STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

(Euros)

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

	Registered capital	Uncalled	Reserves	Capital repayable on demand	Prior years' losses	Profit/(loss) for the year	Technical provisions	Total
Closing balance, 2015 (*)	**37,159,000**	**-**	**46,682**	**(18,159,000)**	**(853,067)**	**156,457**	**16,277,216**	**34,627,287**
Adjustments for changes in accounting criter	-	-	-	-	-	-	-	-
Adjustments for errors	-	-	-	-	-	-	-	-
Adjusted opening balance 2016 (*)	**37,159,000**	**-**	**46,682**	**(18,159,000)**	**(853,067)**	**156,457**	**16,277,216**	**34,627,287**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**164,973**	**6,000**	**170,973**
Transactions with members	**(1,328,800)**	**(13,000)**	**-**	-	**-**	**-**	**-**	**(1,341,800)**
Capital increases	3,152,000	(13,000)	-	-	-	-	-	3,139,000
(-) Capital reductions	(4,480,800)	-	-	-	-	-	-	(4,480,800)
Capital repayable on demand	**-**	**-**	**-**	**1,341,800**	**-**	**-**	**-**	**1,341,800**
Other changes in equity	**-**	**-**	**78,229**	**-**	**78,229**	**(156,457)**	**-**	**-**
Closing balance, 2016 (*)	**35,830,200**	**(13,000)**	**124,911**	**(16,817,200)**	**(774,838)**	**164,973**	**16,283,217**	**34,798,261**
Adjustments for changes in accounting criter	-	-	-	-	-	-	-	-
Adjustments for errors	-	-	-	-	-	-	-	-
Adjusted opening balance 2017	**35,830,200**	**(13,000)**	**124,911**	**(16,817,200)**	**(774,838)**	**164,973**	**16,283,217**	**34,798,261**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**		**12,000**	**12,000**
Transactions with members	**549,600**	**12,000**	**-**	-	**-**	**-**	**-**	**561,600**
Capital increase	3,256,400	12,000	-	-	-	-	-	3,268,400
(-) Capital reductions	(2,706,800)	-	-	-	-	-	-	(2,706,800)
Capital repayable on demand	**-**	**-**	**-**	**(561,600)**	**-**	**-**	**-**	**(561,600)**
Other changes in equity	**-**	**-**	**82,487**	**-**	**82,486**	**(164,973)**	**-**	**-**
Closing balance, 2017 (*)	**36,379,800**	**(1,000)**	**207,398**	**(17,378,800)**	**(692,352)**	**-**	**16,295,217**	**34,810,261**

(*) Presented solely and exclusively for comparison purposes

The accompanying notes 1 to 19 form an integral part of the annual accounts for the year ended 31 December 2017

AVALIS DE CATALUNYA S.G.R

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 AND 2016

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

	Euros	
	2017	**2016 (*)**
CASH FLOWS FROM OPERATING ACTIVITIES	**2,727,427**	**11,047,808**
Profit/(loss) for the year before tax	53,797	**-**
Adjustments for	**(2,682,432)**	**(2,590,166)**
Changes in operating assets and liabilities	**(2,134,396)**	**5,925,273**
Trade and other receivables	(4,465,595)	(5,130,128)
Other assets	1,993,915	11,637,811
Trade and other payables	509,053	55,046
Other liabilities	(171,770)	(637,456)
Other cash flows from operating activities	**7,490,458**	**7,712,701**
Fees and commissions received	7,077,985	7,293,803
Interest received	319,052	354,738
Income tax received/paid	93,421	64,160
CASH FLOWS USED IN INVESTING ACTIVITIES	**(2,957,815)**	**(9,579,596)**
Payments for investments	**(13,727,815)**	**(23,676,237)**
Intangible assets (Note 5)	(75,823)	(68,016)
Property and equipment (Note 6)	(4,549)	(35,985)
Investments	(13,600,000)	(23,545,768)
Non-current assets held for sale	(47,443)	(26,468)
Proceeds from sale of investments	**10,770,000**	**14,096,642**
Intangible assets	-	-
Property and equipment	-	-
Investments	10,400,000	13,426,642
Non-current assets held for sale (Note 11)	370,000	670,000
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	**551,453**	**(195,360)**
Proceeds from and payments for equity instruments	**1,001,000**	**(151,200)**
Issuance of capital (Note 10.a)	3,169,800	3,041,400
Capital redemptions (Note 10.a)	(2,180,800)	(3,198,600)
Technical provisions. Contributions from third parties (Note 10.c)	12,000	6,000
Issuance of convertible debt	-	-
Proceeds from and payments for financial liability instruments	**(449,547)**	**(44,160)**
Security and other deposits received	-	1,200,000
Counter-guarantors	985,337	939,069
Repayment of convertible debt	(1,434,884)	(2,183,229)
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**321,065**	**1,272,852**
Cash and cash equivalents at beginning of year	2,606,824	1,333,972
Cash and cash equivalents at year end	2,927,889	2,606,824

(*) Presented solely and exclusively for comparison purposes

The accompanying notes 1 to 19 form an integral part of the annual accounts for the year ended 31 December 2017

(Free translation from the originals in Spanish. In the event of discrepancy, the Spanish-language versions prevail.)

Avalis de Catalunya, Sociedad de Garantía Recíproca

Notes to the annual accounts for the year ended 31 December 2017

1. Company Activity

Avalis de Catalunya, Sociedad de Garantía Recíproca (hereinafter, Avalis or "the Company") was incorporated under Spanish law on 23 May 2003 as a mutual guarantee society (S.G.R., as per the Spanish acronym), and registered with number 9847 in the Bank of Spain's Special Registry on 28 July 2003. It is a trading company and classified as a financial institution.

Pursuant to its articles of association, the Company's statutory activity is the extension of personal guarantees, through financial and technical guarantees or any other legally recognised means other than surety insurance, to its participating members for transactions performed as part of the ordinary course of their business, and other activities permitted under prevailing legislation at any given time.

The Company's registered office is located at Gran Vía de les Corts Catalanes, 635, in Barcelona.

2. Basis of Presentation of the Annual Accounts

a) Financial reporting framework applicable to the Company

These annual accounts have been prepared by the directors within the financial reporting framework applicable to the Company established in the following:

- Spanish Code of Commerce, the Spanish Companies Act and the Spanish General Chart of Accounts approved by Royal Decree 1514/2007, and other applicable legislation.

- Mandatory standards approved by the Spanish Accounting and Auditing Institute (ICAC) in drafting the Spanish General Chart of Accounts and its supplementary standards.

- Law 1/1994 of 11 March 1994 on the legal regime governing mutual guarantee societies.

- Royal Decree 2345/1996 of 8 November 1996 on administrative authorisation rules and solvency requirements for mutual guarantee societies.

- Law 26/1988 of 29 July 1988 on discipline and intervention in credit institutions by Bank of Spain.

- Ministry of Economy and Finance Order EHA/1327/2009 of 26 May 2009 on special rules for the preparation, documentation and presentation of the accounting information of mutual guarantee societies.

- Bank of Spain Circular 5/2008 of 31 October 2008 on minimum own fund requirements and other information subject to mandatory submission.

- Certain aspects of Circular 4/2004 and subsequent amendments, as well as other applicable circulars.

- Law 14/2013 of 27 September 2013 on supporting entrepreneurs and their internationalisation.

- All other applicable Spanish accounting principles.

b) True and fair view

The accompanying annual accounts have been prepared on the basis of the accounting records of the Company in accordance with applicable financial reporting framework and, in particular, with the accounting principles and criteria set forth therein to give a true and fair view of the equity and financial position and results of the Company and cash flows for 2017. These annual accounts, which have been authorised for issue by the Company's directors, will be submitted for approval by the members at their annual general meeting and are expected to be approved with no changes. The annual accounts for 2016 were approved by the members at the general meeting held on 20 May 2017.

c) Non-mandatory accounting principles applied

No non-mandatory accounting principles have been applied. Additionally, the directors have prepared these annual accounts taking into consideration all mandatory accounting standards and principles with a significant effect thereon. The Company has not failed to apply any mandatory accounting principles.

d) Own funds

In accordance with article 5 of Royal Decree 2345/1996, for the purposes of compliance with the minimum solvency requirements for mutual guarantee societies, the Company's eligible own funds at 31 December 2017 and 2016 comprise the following items:

	Euros	
	31/12/2017	31/12/2016
Subscribed capital	36,379,800	35,830,200
Uncalled capital	(1,000)	(13,000)
Reserves	207,398	124,911
Gains and losses	-	-
Prior years' losses	(692,352)	(774,838)
Technical provisions, net (Note 10.c)	25,175,874	22,833,562
Intangible assets, net	(169,440)	(141,010)
Other reduced risks (*)	(1,214,522)	(2,040,200)
Eligible own funds	**59,685,758**	**55,819,624**
Own funds - calculation basis for limits on concentration of property and equipment and equity investments	**60,900,280**	**57,859,825**

(*) Capital used to reduce the provision for

guarantees (see note 4.e)

Bank of Spain Circular 5/2008 of 31 October 2008, implementing Royal Decree 2345/1996, stipulates that eligible own funds must at no time fall below the sum of:

- ✓ 8% of outstanding exposure on loan guarantees weighted by type of financial and technical guarantees and commitments benefitting from counter-guarantee agreements signed with counter-guarantors, insurers or public entities that reduce credit risk.

- ✓ For operational risk, 15% of transactions.

- ✓ The amount required to cover credit or operational risk derived from commitments made or investments undertaken other than in the normal course of business.

At 31 December 2017, the Company's net eligible own funds exceed the minimum requirements by Euros 37,040,830 (Euros 33,703,448 in 2016). At 31 December 2017 and 2016, the Company's solvency ratio stands at 21.09% and 20.19%, respectively.

In accordance with Rule three of the Circular, the value of all exposures taken on by mutual guarantee societies on behalf of a single individual or economic group shall not exceed 20% of their own funds. At 31 December 2017 and 2016, the Company fulfils this requirement.

Rule four establishes the limit on property and equipment and equity investments, the sum of which shall not exceed 25% of eligible own funds. At 31 December 2017 and 2016, the Company fulfils this requirement.

Rule five stipulates that at least 75% of the Company's elegible own funds shall be invested in debt securities issued by the general government or regional governments, fixed income securities traded on secondary official markets, or loans and advances to credit institutions. At 31 December 2017 and 2016, the Company fulfils this requirement (see note 9.b).

Lastly, Law 14/2013 of 27 September 2013 establishes the minimum capital and eligible own fund requirements for mutual guarantee societies at Euros 10 million and Euros 15 million, respectively. At 31 December 2017 and 2016, the Company fulfils both requirements.

e) Critical issues regarding the valuation and estimation of uncertainty

Estimates made by the Company's directors have been used in the preparation of these annual accounts to measure certain assets, liabilities, income, expenses and commitments recognised in the accounts. These estimates basically refer to:

- The evaluation of possible impairment losses on certain assets (see notes 5, 6, 9 and 11).

- The useful lives of property and equipment and intangible assets (see notes 5 and 6).

- The recognition of financial guarantee contracts (see notes 7 and 14).

- Estimated bad debt provisions. The Company analyses receivables and doubtful exposures on an individual basis, at all times applying the provisions of Annex IX of Bank of Spain Circular 4/2004 and subsequent amendments (see notes 7 and 8). As a result of the entry into force on 1 October 2016 of Bank of Spain Circular 4/2016 of 27 April 2016, changes were made in the estimates used to calculate impairment allowances for doubtful receivables from members and provisions for financial and technical guarantees (see notes 8 and 11).

Although estimates are calculated based on the best information available at the 2017 reporting date, future events may require changes to these estimates (up or down) in subsequent years. Any such changes would be recognised prospectively.

f) Grouping of items

Certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows are grouped together to facilitate comprehension. However, whenever the amounts involved are material, the information is broken down in the related notes to the annual accounts.

g) Changes in accounting criteria

No significant changes were made to the accounting criteria in 2017 compared to those applied in 2016.

h) Comparative information

The information for 2016 included in the annual accounts is presented solely for the purpose of comparison with the information for 2017.

On 1 October 2016, Bank of Spain Circular 4/2016 of 27 April 2016, amending Circular 4/2004 of 22 December 2004, came into force. The main purpose of this Circular is to adapt Annex IX of Circular 4/2004 to reflect the latest developments in banking regulation. Application of this new Circular has entailed changes in the estimates used to calculate impairment allowances for doubtful receivables from members and foreclosed assets, as well as provisions for financial and technical guarantees, with the effect thereof being applied prospectively in profit and loss.

i) Environmental impact

In light of its activities, the Company does not have any environmental liabilities, expenses, assets, provisions or contingencies that could be significant with respect to its equity, financial position or results. Accordingly, no specific disclosures about environmental matters have been included in these notes to the annual accounts.

j) Other information

Bank of Spain Circular 4/2017 on public and confidential financial reporting rules and formats for credit institutions came into force on 1 January 2018. The purpose of this Circular is to adapt the accounting regime for Spanish credit institutions to changes in European accounting legislation following the adoption of new International Financial Reporting Standards (IFRS). This Circular is applicable to the Company in relation to the provisions of Annex IX (risk classification, estimation of provisions and impairment of assets). An implementation project is underway, with participation from all areas of the Company: management, finance, risk, IT, the lines of business and the legal department.

3. Distribution of Profit/Application of Loss

The income statement presents a profit/loss equal to zero in 2017. Consequently, no distribution of profit or application of loss will be proposed for 2017.

The distribution of profit for 2016, prepared by the directors and approved by the members at the annual general meeting on 20 May 2017, was as follows:

	Euros
	2016
Basis of distribution	
Profit/(loss) for the year	164,973
Distribution	
Legal reserve	82,487
Offset of prior years' losses	82,486

4. Significant Accounting Principles

The main recognition and measurement criteria used by the Company to prepare the annual accounts for 2017 are as follows:

a) *Intangible assets*

This caption includes the cost of acquisition, net of accumulated amortisation and impairment losses, if any, of computer systems and programs acquired from third parties, the useful lives of which foreseeably extend over several years. Computer software maintenance costs are expensed as incurred. Intangible assets are amortised on a straight-line basis over a maximum period of three years from the date on which they come into service.

	annual %	Amortisation method	Years of estimated useful life
Computer software	25-33%	Straight-line	3

Impairment of property and equipment and intangible assets

At each year end (in the case of goodwill or assets with indefinite useful lives) or whenever there are indications of impairment, the Company tests the assets for impairment that would reduce their recoverable amount to below their carrying amount.

The recoverable amount is the higher of fair value less costs to sell and value in use.

Where an impairment loss is subsequently reversed, the carrying amount of the asset or the cash-generating unit is increased to the revised estimate of its recoverable amount. The increased carrying amount of an asset may not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment are recognised as income.

b) *Property and equipment*

Property and equipment are initially measured at cost of acquisition, less accumulated depreciation and impairment, if any, in accordance with the criteria indicated in note 4.a.

Depreciation is provided on a straight-line basis over the estimated useful lives of the various asset components, as follows:

	Years
Other installations, equipment and furniture	7-10
Other property and equipment	4-8

Property and equipment begin to be depreciated when the assets enter into service.

Repair and maintenance costs of property and equipment are recognised in the income statement when incurred. Conversely, amounts invested in improvements that increase the capacity or efficiency or extend the useful lives of assets are recognised as an increase in the cost of those assets.

c) *Non-current assets held for sale*

The Company recognises assets acquired in payment of debts under “Non-current assets held for sale” (see note 11). Assets acquired in payment of debts are assets that the Company receives from debtors in full or partial satisfaction of debt, irrespective of how ownership is acquired. The Company acquires all foreclosed assets with the intention to sell them in the shortest time possible, classifying these assets as “Non-current assets held for sale”, as permitted by Order EHA/1327/2009.

Property and equipment acquired for continued use, either for own use or as an investment property, are presented, recognised and measured in accordance with the criterion indicated in note 4.b.

In accordance with the amendment introduced by Circular 4/2016, foreclosed assets are generally recognised and measured at the lower of the carrying amount of the financial assets applied, i.e. at amortised cost, taking into account estimated impairment, and the market appraisal value of the assets received in their current state less estimated costs to sell (as provided in the aforementioned Circular). The net amount of these two items is the initial cost of the asset received. This item has not had a significant effect on the Company’s income statement following the entry into force of the new Circular (see note 2(b)).

Based on the provisions of Circular 4/2016 (effective 1 October 2016), the Company recognises impairment of these assets, calculated as the difference between the carrying amount of the assets and their fair value less estimated costs to sell.

Except in rare circumstances supported by clear evidence, assets received in payment of debts do not give rise to the recognition of gains or, where applicable, the release of provisions for the financial assets applied when these have previously been classified as doubtful assets.

All legal expenses are immediately recognised in the income statement for the period in which the asset is foreclosed. Registration fees and taxes paid could be added to the initial value of the asset, provided that the resulting amount does not exceed the appraisal value less estimated costs to sell. All costs incurred from the date of foreclosure to the date of sale to maintain and protect the asset, such as insurance, security services, etc., are expensed when incurred.

Foreclosed assets that remain in the balance sheet for a longer period than initially envisaged for their sale are tested on an individual basis and any impairment losses coming to light after acquisition are recognised. The impairment analysis takes into account, in addition to reasonable offers received in the period compared with the asking price, difficulties in finding buyers and, in the case of property and equipment, any physical impairment that may reduce their value.

The Company assesses at the reporting date whether there is any internal or external indication that an asset may be impaired, such as significant falls in market value, evidence of obsolescence and rises in interest rates that may materially affect the recoverable amount of the asset. Where such indications exist, the Company estimates the recoverable amount.

In the event that the carrying amount of the assets exceeds fair value less cost to sell, the Company adjusts the carrying amount of the assets for the amount of this excess, with a balancing entry in “Impairment and gains/(losses) on non-current assets held for sale (net)” in the income statement. Where there are subsequent increases in the fair value of the assets, the Company reverses the previously recognised loss by increasing the carrying amount of the assets up to the amount recorded prior to impairment, with a balancing entry in “Impairment and gains/(losses) on non-current assets held for sale (net)” in the income statement.

Any foreclosed assets related to counter-guarantors are recognised as assets in accordance with the criteria set forth in the agreements entered into with these companies, and the amount payable to the counter-guarantor is recognised in “Counter-guarantors” under liabilities until the payment date.

d) Financial instruments

1. Financial assets

The Company's financial assets can be categorised as follows:

a) Loans and receivables: financial assets originating from the sale of goods or the rendering of services related to the Company's trading operations or those which, while non-commercial in origin, do not constitute equity instruments or derivatives, are receivable in a fixed or determinable amount and are not quoted in an active market.

b) Held-to-maturity investments: debt securities with fixed maturity and determinable payments traded on an active market and that Company management has the positive intention and ability to hold to maturity.

Initial measurement

In general, financial assets are recognised initially at the fair value of the consideration given plus any directly attributable transaction costs.

Subsequent measurement

Loans, receivables and held-to-maturity investments are measured 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 repayments and the cumulative amortisation (taken to the income statement) of the difference between the initial cost and the maturity amount. The amortised cost of financial assets also includes any impairment losses.

The effective interest rate is the discount rate that exactly matches the initial value of a financial instrument to all its estimated cash flows for all items over its remaining life. For fixed rate financial instruments, the effective interest rate is the same as the contractual interest rate established on the acquisition date plus any fees that can be equated with a rate of interest, in light of their nature. In the case of floating rate financial instruments, the effective interest rate is the rate of return prevailing until the first date on which the benchmark interest rate will be revised. Nevertheless, financial assets which have no established interest rate, which mature or are expected to be received in the short term (less than one year), and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Company tests financial assets not carried at fair value for impairment at least at each year end. Objective evidence of impairment is considered to exist when the carrying amount of the financial asset exceeds the recoverable amount. Impairment is recognised in the income statement when it arises.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Interest and dividends

Interest is recognised using the effective interest method.

Dividends from investments in equity instruments are recognised when the Company is entitled to receive them. If the dividends are clearly derived from profits generated prior to the acquisition date because amounts higher than the profit generated by the investment since acquisition have been distributed, the carrying amount of the investment is reduced.

2. Financial liabilities

Financial liabilities comprise debts and payables deriving from the purchase of goods and services relating to the Company's commercial operations, or those which, although non-commercial in origin, cannot be considered as derivative financial instruments.

Debts and payables are initially measured at the fair value of the consideration received, adjusted for any directly attributable transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, as described above.

Nevertheless, financial liabilities which have no established interest rate, which mature or are expected to be settled in the short term (less than one year), and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Company derecognises financial liabilities when the obligations that generated them cease to exist.

3. Financial and technical guarantees extended

3.a) Financial guarantees

Financial guarantees are those requiring the Company to make specific payments to reimburse the holder for losses incurred when a particular debtor fails to meet a payment obligation under the original or amended conditions of a debt instrument such as a guarantee. This item includes guarantees used to secure, directly or indirectly, payables such as credit facilities, loans, finance leases and payment deferrals on all types of debt.

These contracts are initially recognised as liabilities under "Liabilities associated with guarantees - Financial guarantees". They are initially measured at fair value, which is equal to the fees and commissions or premium received plus the present value of any fees and commissions or premiums receivable as consideration for granting financial guarantees, discounted at the interest rate applicable to the guaranteed transaction when the guarantee is granted.

After initial recognition, the value of financial guarantee contracts not classified as doubtful is the amount initially recognised as a liability, less the portion recognised in the income statement as accrued income. This income is recognised under "Revenues financial and technical guarantees" in the income statement over the estimated life of the guarantee (see note 14).

Fees and commissions and premiums receivable are recognised in "Trade and other receivables - Sundry receivables" and are measured at their present value, discounting future cash flows at the same interest rate as that used to calculate liabilities associated with financial and technical guarantees. Interest generated by these assets is calculated using the interest rate at which they are initially discounted and recognised as finance income in the income statement.

However, transactions maturing in less than one year, liabilities associated with financial and technical guarantees and fees and commissions receivable are measured at their nominal amount when the effect of not discounting cash flows is immaterial.

Fees and commissions received at the inception of transactions that offset transaction costs are recognised under "Revenues from financial and technical guarantees" in the income statement. Fees and commissions received that are earmarked for offsetting transaction costs do not exceed 0.4% of the guaranteed risk and are limited to Euros 400 per transaction.

In no case do the revenues recognised for offsetting transaction costs exceed the fees and commissions received at the inception of the transaction.

For fees and commissions received when guarantees facilities are granted, the amounts not used to offset transaction costs are not taken to income until a guarantee is granted.

3.b) Other guarantees

Other guarantee contracts that do not qualify as a financial guarantee receive the same treatment, for measurement and presentation purposes, as financial guarantees, and are recognised under "Liabilities associated with financial and technical guarantees - Other guarantees".

The discount interest rate is the average interest rate at which the transactions secured by the Company are granted over a range of time that varies depending on interest rate fluctuations.

For transactions with no maturity date, the Company estimates it on the basis of historical experience with similar contracts.

3.c) Doubtful financial and technical guarantees

Financial guarantees and other guarantees, whatsoever the instrumentation, in which payment difficulties are expected and the Company considers their recovery to be doubtful, are classified as doubtful.

When a guarantee is classified as doubtful, the related fees and commissions receivable are reclassified to "Trade and other receivables - Doubtful receivables from members", and the balance under "Liabilities associated with financial and technical guarantees" related to the doubtful transaction is reclassified to "Provisions for financial and technical guarantees", and an impairment allowance for the asset and the necessary provisions are recognised.

e) Doubtful receivables from members, bad debt provisions and provisions for financial and technical guarantees

"Trade and other receivables - Doubtful receivables from members" in the accompanying balance sheet reflect amounts receivable from members for amounts paid by the Company to the beneficiaries of the guarantees when the corresponding guarantee is called, net of the corresponding provisions. It also includes expenses related to any legal proceedings and other receivables such as fees and commissions receivable and revenue from the rendering of services. Any amounts recovered and adjustments for write-offs of doubtful receivables from members are deducted from this item.

As explained in note 4.d).3.c), Doubtful financial and technical guarantees, it also includes fees and commissions receivable on doubtful financial and technical guarantees (see note 8).

Based on the insolvency risk attributable to the customer or the transaction, they are classified in one of the following categories:

- Standard exposure: transactions that do not meet the requirements for classification in other categories. Within standard exposure, a distinction is drawn between:

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

- Doubtful exposures:

    - Doubtful exposures as a result of borrower arrears: This includes the amount of debt instruments, whosoever the borrower and whatever the guarantee or collateral, any part of whose principal, interest or contractually agreed expenses is more than 90 days past due, unless such instruments should be classified as write-offs. This category also includes guarantees given if the guaranteed party has fallen into arrears in the guaranteed transaction. This category includes the amounts of all a borrower's transactions if the transactions with amounts more than 90 days past-due exceed 20% of outstanding balances. For the sole purpose of determining the indicated percentage, the gross carrying amount of the transactions classified as doubtful due to arrears with past-due amounts shall form the numerator, and the gross carrying amount of all the debt instruments granted to the borrower shall form the denominator. If the percentage thus calculated exceeds 20%, both the debt instruments and the off-balance sheet exposures entailing credit risk will be transferred to doubtful due to arrears.

- Reasons other than borrower arrears: This category includes debt instruments, whether past due or not, which are not classifiable as write-off or doubtful due to borrower arrears, but for which there are reasonable doubts about their full repayment (principal and interest) under the contractual terms. Also included are off-balance sheet exposures not classified as doubtful due to borrower arrears whose payment by the entity is likely but whose recovery is doubtful.

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

Avalis recognises bad debt provisions in accordance with Annex IX of Bank of Spain Circular 4/2004, amended by Bank of Spain Circular 4/2016:

✓ Individual analysis: individually significant assets are analysed to identify customers showing objective evidence of impairment, and the incurred loss is calculated based on the present value of the expected future cash flows (repayment of principal plus interest) for each customer transaction (discounted using the original effective interest rate). The present value is then compared with the carrying amount.

✓ Collective analysis: for exposures not considered significant that show objective evidence of impairment and for other exposures, a collective calculation is made in accordance with the alternative solution provided for by Circular 4/2016 to determine the bad debt provision.

The balance of the bad debt provision is increased by the net charges made to profit and loss for each year (see note 8) and reduced by cancellations of debts considered uncollectible and recoveries arising in respect of amounts for which provisions had previously been recognised.

When a receivable is written off, the Company records the amount recoverable through counter-guarantees (see note 8) by debiting "Trade and other receivables - Other receivables" and crediting "Trade and other receivables - Doubtful receivables from members" in the balance sheet. At 31 December 2017 the balances receivable in this regard amount to Euros 92,756. At 31 December 2016 there were no amounts receivable in this regard (see notes 7 and 8).

Balances written off in respect of doubtful receivables from members, net of counter-guarantees, are adjusted with a charge to the bad debt provision.

The Company has no country risk exposure at 31 December 2017 and 2016 and, accordingly, no provision has been made in this regard.

<u>Refinancing and/or restructuring operations:</u>

On 1 October 2016, Bank of Spain Circular 4/2016 of 27 April 2016, amending Annex IX of Bank of Spain Circular 4/2004 of 22 December 2004, came into force. It establishes the criteria for classifying refinancing, refinanced and restructured transactions, which the Company must apply.

The Company has a policy for the refinancing, restructuring, renewal and renegotiation of operations, which has been approved by the board of directors and included in the Policies and Procedures Manual. This policy details the requirements, conditions and situations in which the Company offers customers in financial difficulties a range of measures to assist them.

The risk and monitoring departments are responsible for carrying out an individual financial analysis of each transaction to ensure that the refinancing, restructuring or payment plan is adequate and feasible for the member, and that it also guarantees the recovery of all the secured amounts or, failing that, to recognise any amounts that are deemed irrecoverable.

f) Technical provisions

In accordance with article 9 of Law 1/1994 of 11 March 1994, the Company must set up technical provisions in order to reinforce its solvency.

Technical provisions comprise:

- Charges made by the Company to the provision for bad debts in the income statement. There is no limit thereto. This is the amount that the Company charges to the income statement in accordance with article 9.a) of Law 1/1994 of 11 March 1994, on the legal regime governing mutual guarantee societies.

  Provisions made to cover specific credit risks are recognised under "Provisions" in the balance sheet while those used to cover financial assets or foreclosed assets in payment of debts are recognised as impairment allowances, reducing the balance of "Doubtful receivables from members" and "Non-current assets held for sale", respectively.

  Provisions made to cover the collective risk of all transactions are recognised in "Technical provisions. Collective coverage of all transactions" under liabilities with a charge to "Technical provisions. Collective coverage of all transactions (net)" in the income statement. This provision may be used to offset specific credit risk as required for the assets, guarantees or impairment allowances for foreclosed assets in payment of debts. The amounts of this provision used to offset specific allowances and provisions recorded in the income statement are recognised as income in "Technical provisions. Collective coverage of all transactions (net)".

- Contributions from third parties to technical provisions reflect amounts paid by third parties to the Company in respect of grants, donations and other non-repayable contributions, irrespective of their nature, in accordance with article 9.b) and c) of Law 1/1994 of 11 March 1994, on the legal framework governing mutual guarantee societies.

  These contributions are initially recognised in equity under "Technical provisions. Contributions from third parties". If the Company has not recognised sufficient technical provisions during the year, without incurring losses, the amount contributed by third parties is recognised as income in "Technical provisions. Contributions from third parties used" in the income statement to offset:

  - The minimum provision for collective coverage of all transactions.
  - The specific risk provision required for assets, financial and technical guarantees.
  - The impairment allowance for foreclosed assets in payment of debts.

- Technical provisions. Collective coverage of all transactions: this is the amount of technical provisions used to cover the risk on all transactions. It must be equivalent to at least 1% of the Company's total outstanding exposure on financial and technical guarantees extended, debt securities and all other amounts receivable, except for:

  - The amount of exposures for which a specific provision has been made.
  - The amount of exposures derived from securities issued by public entities, including those arising on public debt reverse repurchase agreements, regional government bodies and other dependent public entities; the amount of exposures guaranteed by the aforementioned government bodies, directly or indirectly through bodies with unlimited guarantees; risk exposures subject to counter-guarantee or reinsurance from public bodies or companies of a European Union member state whose principal activity is the provision of reinsurance, or credit surety bonds, for the covered portion; risk exposures guaranteed by cash deposits; and fees and commissions receivable for guarantees.
  - A total of 50% of the amount of exposures which are sufficiently guaranteed through mortgages on completed housing, offices, multi-purpose premises and rural property.
  - Loans and advances to credit institutions.

Technical provisions are reduced by the amount applied to cover specific credit risk related to doubtful transactions (insolvency, financial instruments whose recovery is unlikely, and assets acquired in payment of debts). Thus, net technical provisions are equal to the technical provisions not applied to cover specific credit risk of transactions (see note 10.c).

Charges, recoveries and applications of technical provisions are made with a credit or debit, as appropriate, to "Provisions for financial and technical guarantees (net)", "Impairment of doubtful receivables from members (net)", "Technical provisions. Collective coverage of all transactions. net", "Impairment and gains/(losses) on non-current assets held for sale (net)" and "Technical provisions. Contributions from third parties used" in the income statement (see note 10.c).

g) Income and expense

Income and expenses are recognised on an accruals basis, considering the actual flow of the goods and services they represent, irrespective of collections and payments. Income is calculated at the fair value of the consideration received, net of discounts and taxes.

Revenue from services rendered is recognised in the income statement by reference to the stage of completion at the reporting date, provided that the outcome of the transaction can be reliably estimated.

The interest and fees and commissions accrued on doubtful receivables from members are recognised as income when collected. Similarly, deferred amounts receivable from sales of foreclosed assets in payment of debts are recognised as gains when collected, with a credit to "Impairment and gains/(losses) on non-current assets held for sale".

h) Provisions and contingencies

When preparing the annual accounts, the Company's directors distinguish between:

- Provisions: balances payable for present obligations arising from past events, settlement of which will probably result in an outflow of resources, but the amount and/or settlement date of which are uncertain.

- Contingent liabilities: possible obligations arising from past events, the future materialisation of which is conditional on the occurrence or non-occurrence of one or more future events beyond the Company's control.

The annual accounts include all the provisions for amounts for which it is considered more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the annual accounts, but rather are disclosed in the notes, unless the possibility of an outflow in settlement is considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount necessary to settle or transfer the obligation, taking into account available information on the event and its consequences. Any adjustments arising from the restatement of these provisions are recognised as finance costs as they are accrued.

i) Oustanding Risk through financial and technical guarantees extended

The memorandum item for outstanding risk through financial and technical guarantees extended includes the outstanding balance of loan or credit guarantees for which guarantees have been extended at the reporting date, and other guarantees extended and arranged by the Company for the maximum amount of liability vis-à-vis third parties, distinguishing between "Financial guarantees" and "Other guarantees", where no payment has been made to or claimed by the beneficiary of the guarantee.

In guarantees in which the risk increases as a result of interest accrual, the maximum guaranteed amount includes, in addition to the guaranteed principal, interest due and payable.

The amounts guaranteed by the Company may only be reduced or removed when there is duly documented evidence that the guaranteed exposures have decreased or ceased or when those amounts are paid to third parties.

Doubtful financial and technical guarantees payable to third parties are also recognised under "Outstanding Risk through financial and technical guarantees extended, of which: doubtful".

Impairment of doubtful transactions is recognised in "Provisions for financial and technical guarantees" under liabilities.

In 2017 and 2016 counter-guaranteed risk includes the amount of exposures transferred to Compañía Española de Reafianzamiento, S.A. (CERSA) through counter-guarantee agreements (see note 8).

j) Termination and other benefits

In accordance with prevailing employment law, the Company is obliged to pay compensation to employees whose contracts are terminated in certain circumstances. In 2017 termination benefits amounted to Euros 453 and are recognised under "Personnel expenses - Salaries, wages and similar" in the accompanying income statement (Euros 93,985 in 2016). At the 2017 and 2016 reporting dates no provision has been made for termination benefits as no situations of this nature are foreseen.

k) Leases

Leases are classified as finance leases when under the terms thereof the risks and rewards incidental to ownership of the asset are substantially transferred to the lessee, otherwise they are classified as operating leases.

Expenses deriving from operating lease agreements are taken to the income statement for the year in which they are accrued. Any significant payment received or made on entering into an operating lease is considered as revenue received in advance or a prepayment and taken to the income statement over the lease term in accordance with the pattern of economic benefits transferred or received. At 31 December 2017 and 2016, there are no prepayments yet to be taken to the income statement.

At the 2017 and 2016 reporting dates the Company has a lease agreement for the Barcelona office. The related operating lease instalments recognised as expenses in 2017 and 2016 amount to Euros 254,408 and Euros 250,094, respectively (see note 18.c). The lease agreement was signed in 2012 for a 10-year period, comprising a compulsory five-year period for both parties and five years that are discretional for the lessee and compulsory for the lessor.

Other operating leases were held in 2017 and 2016, for amounts of Euros 25,223 and Euros 21,177, respectively (see note 18.c).

l) Classification of capital as equity or non-current liabilities

In accordance with Order EHA/1327/2009 of 26 May 2009, member contributions to the capital of mutual guarantee societies are recognised as equity under "Capital" if the Company has a right to refuse to repay them due to prohibition by law or its articles of association. Under the aforementioned Order, the amount of capital is the greater of:

- the minimum capital stipulated in the articles of association, which stands at Euros 19,000,000 at 31 December 2017 and 2016.

- the minimum required amount of own funds not covered by other items eligible as own funds, calculated in accordance with the solvency regulations applicable to these companies.

At 31 December 2017 the minimum requirement for elegible own funds amounts to Euros 22,644,928 (Euros 22,116,117 at 31 December 2016) and is fully covered by other items eligible as own funds (Euros 20,002,427 covered by other items eligible as own funds at 31 December 2016).

As the Company’s minimum capital is Euros 19,000,000 pursuant to its articles of association, in 2017 and 2016 the Company chose the first of these options and recognised that amount as capital, with a credit of Euros 17,378,800 and Euros 16,817,200 to “Capital repayable on demand” in the balance sheet at 31 December 2017 and 2016, respectively.

Capital contributions that cannot be recorded as equity are recognised as “Capital repayable on demand” in the accompanying balance sheet.

m) Income tax

The income tax expense or tax income comprises current tax and deferred tax.

Current tax is the amount payable by the Company as a result of income tax settlements for a given year. Tax credits and other tax benefits, excluding tax withholdings and payments on account, and tax loss carryforwards applied in the current year reduce the current income tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences reflecting the amount expected to be payable or recoverable as a result of differences between the carrying amounts of assets and liabilities and their tax bases, as well as tax loss carryforwards and available tax credits and deductions. These amounts are recognised by applying the expected recovery or settlement tax rate to temporary differences or tax credits.

Deferred tax liabilities are recognised for all temporary differences, unless the temporary difference arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

Deferred tax assets are recognised only to the extent that it is considered probable that the Company will have taxable profits in the future against which the deferred tax assets can be utilised.

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised in equity.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made where there are doubts as to their future recoverability. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised where it has become probable that they will be recovered through future taxable profits (see note 15).

The standard rate of tax is 25%.

Under Law 1/1994, mutual guarantee societies benefit from the following tax advantages:

- Exemption from capital transfer tax and stamp duties on corporate operations for formations and capital increases and decreases, as well as those involving the extension of guarantees on behalf of its members.

- Exemption from corporate income tax on contributions to technical provisions made by public entities and on the interest earned thereon.

Furthermore, Income Tax Law 43/1995 of 27 December 1995 stipulates that technical provisions charged to profit and loss will be deductible from the income tax base until such technical provisions reach the mandatory minimum amount stipulated in Royal Decree 2345/1996 (see note 4(f)). As regards the provisions charged to profit and loss in excess of this minimum amount, 75% are deductible from the income tax base.

n) Statement of changes in equity

The statement of changes in equity presents all changes in equity arising from:

- Total recognised income and expense.
- Changes in equity arising from transactions with Company members or owners in their capacity as such.
- Other changes in equity.
- Adjustments to equity due to changes in accounting criteria and corrections of errors must also be presented.

This statement is prepared taking the following considerations into account:

- Profit or loss from one year is transferred to the following year in the column "Prior years' profit and loss".
- The profit or loss from the prior year distributed or applied in the current year is reflected under "Other changes in equity".

o) Statement of cash flows

The following expressions, as defined below, are used in the statement of cash flows, prepared using the indirect method:

- Cash flows: inflows and outflows of cash and cash equivalents, the latter being short-term, highly liquid investments subject to a low risk of changes in value.
- Operating activities: typical activities of the Company and other activities that cannot be classified as investing or financing.
- Investing activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and liabilities and that are not operating activities.

p) Pension obligations

The Company has no commitments in respect of pension plans for personnel nor any other commitments involving a significant amount that may require future disbursements. Consequently, the accompanying ***balance sheets do not include any provisions for these items.***

q) Environmental issues

The directors of the Company consider that the environmental risks deriving from its activity are minimal and adequately covered and that no additional liabilities will arise therefrom.

The Company did not incur any expenses or receive any environment-related grants during 2017 and 2016.

5. Intangible Assets

Movement in intangible assets during 2017 and 2016 is as follows (see note 4.a):

	Euros						
	Balance at 31/12/2015	Additions or charges	Disposals or reductions	Balance at 31/12/2016	Additions or charges	Disposals or reductions	Balance at 31/12/2017
Cost							
Computer software	518,569	64,076	-	582,645	51,764	-	634,409
Other	11,743	3,940	-	15,683	24,059	-	39,742
Total cost	**530,312**	**68,016**	**-**	**598,328**	**75,823**	**-**	**674,151**
Accumulated amortisation							
Computer software	(406,121)	(40,099)	-	(446,219)	(45,642)	-	(491,861)
Other	(11,098)	-	-	(11,098)	(1,753)	-	(12,851)
Total accumulated amortisation	**(417,218)**	**(40,099)**	**-**	**(457,317)**	**(47,395)**	**-**	**(504,712)**
Total net intangible assets	**113,093**	**27,917**	**-**	**141,010**	**28,428**	**-**	**169,440**

Additions to intangible assets in 2017 and 2016 amount to Euros 75,823 and Euros 68,016, respectively, and mainly reflect improvements in the Company's applications and software licences.

During 2017 and 2016, no impairment was identified.

At 31 December 2017 and 2016, fully amortised intangible assets in use amount to Euros 272,001 and Euros 262,004, respectively.

6. Property and Equipment

Movement in property and equipment during 2017 and 2016 is as follows (see note 4.b):

	Euros						
	Balance at 31/12/2015	Additions or charges	Disposals or reductions	Balance at 31/12/2016	Additions or charges	Disposals or reductions	Balance at 31/12/2017
Cost:							
Other installations, equipment and furniture	103,607	13,787	-	117,394	2,388	-	119,782
Other property and equipment	294,819	22,198	(62,934)	254,083	2,161	-	256,244
Total cost	**398,426**	**35,985**	**(62,934)**	**371,477**	**4,549**	**-**	**376,026**
Accumulated depreciation:							
Other installations, equipment and furniture	(86,572)	(4,774)	-	(91,346)	(5,447)	-	(96,793)
Other property and equipment	(247,155)	(13,042)	62,934	(197,263)	(14,071)	-	(211,334)
Total accumulated depreciation	**(333,727)**	**(17,816)**	**62,934**	**(288,609)**	**(19,518)**	**-**	**(308,127)**
Total property and equipment, net	**64,699**	**18,170**	**-**	**82,868**	**(14,969)**	**-**	**67,899**

During 2017 and 2016, no impairment was identified.

At 31 December 2017 and 2016, the carrying amount of property and equipment is covered by insurance policies. At those dates, fully depreciated property and equipment in use amount to Euros 265,746 and Euros 250,929, respectively.

7. Trade and Other Receivables

Details at 31 December 2017 and 2016 are as follows:

	Euros	
	31/12/2017	31/12/2016
Doubtful receivables from members (Note 8)	16.532.108	15.523.076
Sundry receivables	11.959.773	12.107.045
Fees and commissions receivable for guarantees (Note 4.d) (3.a) and b))	11.704.942	12.076.199
Other receivables	254.831	30.846
Public entities, other (Note 15)	327.199	474.417
Other receivables	39.020	39.506
Total	**28.858.100**	**28.144.044**

"Fees and commissions receivable for guarantees" mainly reflect the present value of fees and commissions receivable for risk coverage.

At 31 December 2017 and 2016, "Public entities, other" basically comprise the amounts withheld by financial institutions for the settlement of interest, tax credits for deductions and tax loss carryforwards, and temporary differences arising from income tax calculations (see note 15).

At 31 December 2017 and 2016, "Other receivables" basically include a long-term security deposit in respect of the rental of the Company's office in Barcelona.

8. Doubtful Receivables from Members and Provisions

Details of "Doubtful receivables from members" at 31 December 2017 and 2016 are as follows (see note 4.e):

	Euros	
	31/12/2017	31/12/2016
Secured by collateral	3.175.072	3.677.189
Personal guarantee from the company	13.619.827	11.142.974
Other guarantees	2.863.472	3.180.726
Unsecured	2.843.048	3.205.698
Total doubtful receivables from members for guarantees	**22.501.419**	**21.206.587**
Other doubtful receivables from members (*)	11.337	11.337
Total doubtful receivables from members	**22.512.756**	**21.217.924**
Impairment due to bad debts on doubtful receivables from members (Note 10.c)	**(8.608.202)**	**(8.206.411)**
Portfolio fees and commissions - doubtful receivables from members	2.882.953	2.761.924
Provisions for fees and commissions on doubtful receivables from members	(255.399)	(250.363)
Portfolio fees and commissions - doubtful receivables from members (net)	**2.627.554**	**2.511.562**
Total doubtful receivables from members	**16.532.108**	**15.523.076**

(*) This basically comprises expenses related to claims for doubtful receivables for financial and technical guarantees.

Movement in doubtful receivables from members in respect of guarantees in 2017 and 2016 is as follows:

	Euros				
	Balance at 31/12/2016	Additions	Derecognitions	Write-offs (Nota 4.e)	Balance at 31/12/2017
Doubtful receivables from members for guarantees	21,217,924	6,078,168	(1,968,070)	(2,815,267)	22,512,755
Of which: counter-guaranteed	**10,864,383**				**11,765,142**

	Euros				
	Balance at 31/12/2015	Additions	Derecognitions	Write-offs (Nota 4.e)	Balance at 31/12/2016
Doubtful receivables from members for guarantees	18,380,197	7,263,372	(2,137,837)	(2,287,808)	21,217,924
Of which: counter-guaranteed	**9,153,387**				**10,864,383**

The balance at 31 December 2017 and 2016 and movement during the years then ended in “Write-off assets” and “Technical provisions for write-off assets” used for write-off assets, which the Company records internally as memorandum accounts, are as follows:

	Euros				
	Balance at 31/12/2016	Additions	Recovered write-off assets	Unclaimable write-offs	Balance at 31/12/2017
Total write-off assets:					
Amounts received from counter-guarantors	7,244,419	1,201,973	(139,246)	(496,561)	7,810,585
Write-offs due to guarantees (Notes 4.e and 10.c)	6,741,456	3,317,801	(1,443,806)	(385,435)	8,230,016
	13,985,875	**4,519,774**	**(1,583,051)**	**(881,996)**	**16,040,601**
Technical provisions for write-off assets	**6,741,456**	**3,317,801**	**(1,443,806)**	**(385,435)**	**8,230,016**

	Euros				
	Balance at 31/12/2015	Additions	Recovered write-off assets	Unclaimable write-offs	Balance at 31/12/2016
Total write-off assets:					
Amounts received from counter-guarantors	6,514,131	1,020,548	(78,387)	(211,872)	7,244,419
Write-offs due to guarantees (Notes 4.e and 10.c)	5,583,767	2,923,554	(1,211,974)	(553,891)	6,741,456
	12,097,898	**3,944,101**	**(1,290,361)**	**(765,763)**	**13,985,875**
Technical provisions for write-off assets	**5,583,767**	**2,923,554**	**(1,211,974)**	**(553,891)**	**6,741,456**

Technical provisions for write-off assets, including those for total write-off assets not subject to claim, amount to Euros 20,801,736 and Euros 18,927,741 in 2017 and 2016, respectively.

Impairment allowances for commercial credits and the provision for financial and technical guarantees at 31 December 2017 and 2016 are as follows:

	Euros	
	31/12/2017	31/12/2016
Impairment of doubtful receivables from members	8.608.202	8.206.411
Impairment of sundry receivables	10.327	8.912
Provision for bad debts - fees and commissions on doubtful receivables from members	255.399	250.363
Total provision for doubtful receivables from members and sundry receivables	**8.873.928**	**8.465.686**
Provision for financial and technical guarantees	**9.245.461**	**9.069.538**
Provision for financial and technical guarantees (Note 10.c)	6.617.908	6.559.502
Valuation of fees and commissions on doubtful surety bonds (Note 4.d)	2.627.553	2.510.035

Movement in the provision for impairment for bad debts, not including fees and commissions for doubtful financial and technical guarantees, in 2017 and 2016 is as follows:

	Euros		
	Provision for doubtful receivables from members	Provision for doubtful guarantees	Total provisions
Balance at 31 December 2015	**7,080,103**	**6,791,543**	**13,871,646**
Impairment of doubtful receivables from members (net) (Nota 18.d)	2,713,937	-	2,713,937
Charges/reversals of provisions for guarantees (net) (Notes 10.c and 18.d)	-	(232,041)	(232,041)
Net adjustment of write-offs (Notes 10.c and 11)	(1,328,354)	-	(1,328,354)
Balance at 31 December 2016	**8,465,686**	**6,559,502**	**15,025,188**
Impairment of doubtful receivables from members (net) (Note 18.d)	2,143,451	-	2,143,451
Charges/reversals of provisions for guarantees (net) (Notes 10.c and 18.d)	-	58,405	58,405
Net adjustment of write-offs (Notes 10.c and 11)	(1,735,209)	-	(1,735,209)
Balance at 31 December 2017	**8,873,928**	**6,617,908**	**15,491,835**

Compañía Española de Reafianzamiento, S.A.

The Company signs an annual counter-guarantee agreement with CERSA to partially cover both general and specific provisions and bad debts written off arising from risks assumed by the Company on behalf of its member SMEs. The main clauses set forth in the agreement signed in 2017 are as follows:

- CERSA provides coverage of the principal and current interest on medium- and long-term guarantees extended by the Company on behalf of SMEs to credit institutions, government and public entities, suppliers and customers, with the exception of those related to transactions expressly excluded in the agreement. The percentages covered are established according to the characteristics of the SME, the nature of the financed assets, the rating and purpose of the transaction for which the guarantee is required, and the achievement of the guarantee targets established for the mutual guarantee society by CERSA, which range from 20% to 80%.

- CERSA offers the possibility of covering certain transactions other than those described above, which are known as special transactions, the coverage of which is analysed individually.

- The amount counter-guaranteed by CERSA on behalf of a single SME or companies belonging to the same economic group shall under no circumstance exceed Euros 750,000, considering CERSA's outstanding exposure in respect of that company or, where appropriate, its economic group for financial and technical guarantees extended by the Company and other guarantee societies that have extended financial and technical guarantees on behalf of that company. This limit shall be reduced to Euros 475,000 if the Company meets the conditions for the lower coverage table. In 2017 the limit applicable to the Company was Euros 750,000.

- The agreement specifically establishes certain limitations according to the product, sector, purpose and amount.

- The outstanding exposure on transactions counter-guaranteed by CERSA on behalf of the mutual guarantee society shall not exceed 20% of CERSA's total outstanding risk vis-à-vis the guarantee system.

- CERSA is required to pay all or part of the percentage counter-guaranteed, on condition that the transaction is considered to be written off, in accordance with the definition thereof agreed by the parties.

- The risk coverage provided in this agreement is free, provided that the relevant quality ratio (calculated annually to determine the cost of the coverage) is not exceeded. No expense was recognised in this regard in 2017 and 2016.

- The agreement entered into force on 1 January 2017 and expired on 31 December 2017.

On 22 February 2018, the Company signed an agreement with CERSA governing the transactions that will be arranged in 2018.

Information on counter-guarantees provided by CERSA is shown below:

CERSA	Euros	
	31/12/2017	31/12/2016
Counter-guaranteed oustanding risk	194.948.415	189.698.485
of which doubtful exposures	*15.599.204*	*15.072.710*
Unprovisioned bad debts from counter-guarantee contracts	7.044.417	6.170.458
Counter-guaranteed doubtful receivables from members	11.765.142	10.864.383
Unprovisioned bad debts from counter-guarantee contracts	9.134.403	8.012.974
Assets foreclosed to settle counter-guaranteed debts	774.291	1.176.384
Unprovisioned bad debts from counter-guarantee contracts	492.779	823.879
Funds received from CERSA, net	24.993.952	23.931.225
of which, for the year	*1.062.727*	*942.161*
Amounts collected by the Company over which CERSA has rights	17.614	2.248
of which, for the year	*17.614*	*2.248*
Amounts receviable declared to CERSA	92.756	-

Agreement with the "Departament d'Economia i Coneixement de la Generalitat de Catalunya"

On 19 October 2015 the Company signed a collaboration agreement with the "Departament d'Economia i Coneixement de la Generalitat de Catalunya" regulating the technical provision contribution scheme.

The agreement entered into force on the date of signing and is valid for three calendar years. Partial extensions are permitted provided neither party serves written notice of termination in the last month of the year.

This agreement replaces and renders null and void the Basic Counter-Guarantee Agreement which the Company signed with the Generalitat de Catalunya in 2008.

Based on the agreement signed in 2015, the Company shall request that the Generalitat de Catalunya make a contribution to technical provisions whenever the technical provisions ratio (Technical provisions through contributions from third parties + Technical provisions for collective coverage of all transactions) / Outstanding exposure through financial and technical guarantees (at 31 December of the prior year) meets the two following requirements:

i. It is below 5%.

ii. It is below the Spanish mutual guarantee society sector average for the prior year.

The maximum amount to be contributed by the Generalitat de Catalunya may not exceed Euros 2,000,000 in each budget year and is subject to budgetary availability.

In 2017 and 2016 the Company did not receive any amounts in this regard.

9. Cash and Investments

a) Cash

Details at 31 December 2017 and 2016 are as follows:

	Euros	
	31/12/2017	31/12/2016
Cash	2,968	4,416
On-demand current accounts	2,924,920	2,602,408
	2,927,888	**2,606,824**

In 2017 and 2016, the interest accrued on current account balances amounted to Euros 418 and Euros 3,462, respectively, and is shown under “Finance income” in the income statement (see note 18.f).

The weighted average rate of interest earned on current accounts in 2017 was 0.01% (0.07% in 2016).

b) Investments

At 31 December 2017 and 2016, this item includes investments, which basically comprise fixed-term deposits and debt securities.

Investments	Euros	
	31/12/2017	31/12/2016
Equity instruments	1,832	1,832
Time deposits at credit institutions	15,614,390	22,568,417
Short-term	15,614,390	22,568,417
Long-term	-	-
Debt securities	38,193,560	29,944,947
Short-term	13,755,778	11,468,474
Long-term	24,437,782	18,476,476
	53,809,782	**52,515,196**

At 31 December 2017 and 2016, “Investments - Debt securities” comprise bonds and promissory notes acquired from third parties and classified as held-to-maturity investments as follows:

Rating	Euros					
	2017			2016		
	Government fixed income	Private fixed income	Total	Government fixed income	Private fixed income	Total
AAA	-	-	-	-	-	-
AA	-	-	-	-	-	-
A-	-	6,031,480	6,031,480	-	-	-
BBB+	-	6,979,934	6,979,934	-	3,025,924	3,025,924
BBB	1,509,745	10,518,311	12,028,056	-	9,634,161	9,634,161
BBB-	-	3,684,401	3,684,401	-	4,902,150	4,902,150
BB+	-	-	-	-	1,922,505	1,922,505
BB	9,469,689	-	9,469,689	10,460,207	-	10,460,207
B+	-	-	-	-	-	-
B	-	-	-	-	-	-
No rating	-	-	-	-	-	-
Total	**10,979,434**	**27,214,126**	**38,193,560**	**10,460,207**	**19,484,740**	**29,944,947**

At 31 December 2017, 27% of long-term investments mature in less than 15 months, 14% mature within 15 to 24 months, and the rest mature within 24 to 60 months. At the 2016 reporting date, 15% of long-term investments had maturities of less than 15 months, with the remainder maturing within 15 to 24 months.

The interest earned on time deposits at credit institutions amounted to Euros 30,398 and Euros 118,709 in 2017 and 2016, respectively, and is shown under "Finance income" in the income statement (see note 18.f). Similarly, the interest accrued on debt securities in 2017 and 2016 amounted to Euros 414,569 and Euros 502,558, respectively, and has been recognised under "Finance income" in the income statement (see note 18.f). In 2017 and 2016, expenses arising from investments amounted to Euros 175,999 and Euros 240,019, respectively, and are recognised under "Finance costs" in the income statement for the year.

In 2017 and 2016 the average yield on investments was as follows:

Investments	2017	2016
Term desposits with financial institutions	0.19%	0.49%
Debt securities	0.81%	0.93%

In 2017 and 2016 there was no impairment on debt securities.

10. Equity

a) Capital

The capital of mutual guarantee societies comprises subscribed capital, uncalled capital and capital repayable on demand.

The subscribed capital of the Company, made up of contributions from members, is variable between the minimum stipulated in the articles of association and three times that amount, and is divided into equity investments of equal par value. At 31 December 2017 and 2016, the minimum registered capital established in the articles of association is Euros 19,000,000 (see note 4.l). Within the limits established, the Company's capital can be increased by the board of directors by creating new equity investments which must be fully subscribed and of which at least 25% must be paid on creation. Capital may be reduced through the repayment and cancellation of equity investments with the prior agreement of the board of directors. The board of directors may delegate these powers to the executive committee and the CEO.

In accordance with section 5 of Annex I of Ministerial Order EHA/1327/2009, at 31 December 2017 the Company has classified the excess above the minimum statutory capital under "Capital repayable on demand". As a result, at 31 December 2017 the Company has recognised "Capital repayable on demand" amounting to Euros 17,378,800 (Euros 16,817,600 at 31 December 2016).

Under Law 1/1994, patron members, whose direct or indirect equity investments may not exceed 50% of the minimum established in the articles of association, may co-exist with participating members on whose behalf guarantees have been extended. Equity investments held by public entities, regional government bodies and other public entities, trading companies in which the former entities hold majority stakes, or entities that represent or associate economic interests of a general nature are not eligible when calculating this percentage.

At 31 December 2017 and 2016, subscribed capital comprises 181,899 and 179,151 equity investments, respectively, of Euros 200 par value each. Patron members hold 92,461 of these equity investments (96,528 equity investments at 31 December 2016). Under prevailing legislation, patron members may not receive guarantees from the Company.

In accordance with the Company's articles of association, the equity investments required to obtain a guarantee from the Company must be fully paid when the guarantee is granted.

Participating members may only withdraw their membership once all outstanding transactions have been settled and in no case may the amount of capital repaid exceed the actual value of the equity investments contributed, up to the limit of their par value. Should the Company's capital be insufficient to cover debts assumed prior to the repayment date, members will be liable for the amount of capital repaid for five years following repayment. Repaid capital at 31 December 2017 stands at Euros 7,333,000 (Euros 6,804,800 at 31 December 2016). The breakdown by year of repayment is as follows (in Euros):

Year	31/12/2017	31/12/2016
2012	-	1,093,800
2013	1,134,600	1,134,600
2014	1,061,400	1,061,400
2015	1,859,000	1,859,000
2016	1,656,000	1,656,000
2017	1,622,000	-
	7,333,000	**6,804,800**

Movement in the Company's capital in 2017 and 2016 is as follows:

Subscribed capital	Euros
Balance at 31 December 2015	**37,159,000**
Plus- Subscriptions by members	3,719,000
Admission of members	1,925,400
Capital increases, members	1,793,600
Less- Capital reductions	(5,047,800)
Departures, members	(1,857,800)
Reductions, members	(3,190,000)
Balance at 31 December 2016	**35,830,200**
Plus- Subscriptions by members	3,256,400
Admission of members	1,905,200
Capital increases, members	1,351,200
Less- Capital reductions	(2,706,800)
Departures, members	(927,400)
Reductions, members	(1,779,400)
Balance at 31 December 2017	**36,379,800**

In 2017, the capital held by patron members decreased by Euros 813,400 (Euros 2,235,400 in 2016). In 2017 the capital held by participating members showed a net increase of Euros 1,363,600 (Euros 906,600 in 2016).

In addition, at 31 December 2017, the total capital reduction includes Euros 399,600 for capital applied for debt repayment in respect of doubtful receivables from members (Euros 395,400 at 31 December 2016).

At 31 December 2017 and 2016, the capital claimed by participating members and pending repayment amounts to Euros 114,504 and Euros 73,976, respectively.

At 31 December 2017 and 2016, capital is held as follows:

Subscribed capital	Euros	
	31/12/2017	31/12/2016
Patron members	**18,492,200**	**19,305,600**
Participating members:	**17,887,600**	**16,524,600**
Guaranteed	16,085,200	15,423,200
Of which doubtful	1,642,600	1,707,600
No outstanding transactions	1,802,400	1,101,400
	36,379,800	**35,830,200**

At 31 December 2017 unpaid subscribed capital amounts to Euros 1,000 (Euros 13,000 at 31 December 2016).

The complete list of patron members, together with the amount of capital subscribed and fully paid at 31 December 2017 and 2016 is as follows:

Owner	**Euros** Subscribed capital at 31/12/2017	**Percentage ownership interest (*)**
INSTITUT CATALÀ DE FINANCES	4,650,000	12.78%
GENERALITAT DE CATALUNYA	3,399,600	9.34%
INSTRUMENTS FINANCERS PER EMPRESES INNOVADORES, S.L.	2,260,800	6.21%
CAIXABANK S.A.	1,993,000	5.48%
BANCO BILBAO VIZCAYA ARGENTARIA SOCIEDAD ANONIMA	1,278,200	3.51%
BANKIA, S.A.	973,600	2.68%
BANCO SANTANDER, S.A.	889,200	2.44%
BANCO DE SABADELL, S.A.	845,000	2.32%
CONSORCI DE COMERÇ, ARTESANIA I MODA DE CATALUNYA	758,200	2.08%
BANCO POPULAR ESPAÑOL, S.A.	296,600	0.82%
INSTITUT CATALA DE LES EMPRESES CULTURALS	295,600	0.81%
CONSELL GENERAL DE CAMBRES DE CATALUNYA	204,600	0.56%
BANCO MARE NOSTRUM, S.A.	148,200	0.41%
CAIXA SABADELL TINELIA, S.L.	120,000	0.33%
DEUTSCHE BANK, S.A.	120,000	0.33%
CONFEDERACIO DE COOPERATIVES DE CATALUNYA	63,800	0.18%
CAJA RURAL DE ARAGÓN, SOCIEDAD COOPERATIVA DE CRÉDITO	24,000	0.07%
CAIXA DE CRÉDIT DELS ENGINYERS, S.COOP. DE CRÉDIT	24,000	0.07%
CAJAMAR CAJA RURAL, SOCIEDAD COOPERATIVA DE CRÉDITO	24,000	0.07%
BANKINTER, S.A.	24,000	0.07%
FUNDACIO ESPECIAL PINNAE	24,000	0.07%
ABANCA CORPORACION BANCARIA, S.A.	24,000	0.07%
CAJA DE ARQUITECTOS, S. COOP. DE CREDITO	24,000	0.07%
FOMENT DEL TREBALL	9,000	0.02%
PIMEC PETITA I MITJANA EMPRESA DE CATALUNYA	9,000	0.02%
ASSOCIACIO CATALANA DE MUNICIPIS I COMARQUES	4,800	0.01%
FEDERACIO DE SOCIETATS LABORALS DE CATALUNYA	4,800	0.01%
CAMBRA DE COMERÇ DE TARREGA	200	0.00%
Patron members	**18,492,200**	**50.83%**

Owner	Euros Subscribed capital at 31/12/2016	Percentage ownership interest (*)
INSTITUT CATALÀ DE FINANCES	4,650,000	12.98%
GENERALITAT DE CATALUNYA	3,325,400	9.28%
INSTRUMENTS FINANCERS PER EMPRESES INNOVADORES, S.L.	3,190,000	8.90%
CAIXABANK S.A.	1,993,000	5.56%
BANCO BILBAO VIZCAYA ARGENTARIA SOCIEDAD ANONIMA	1,278,200	3.57%
BANKIA, S.A.	973,600	2.72%
BANCO SANTANDER, S.A.	889,200	2.48%
BANCO DE SABADELL, S.A.	845,000	2.36%
CONSORCI DE COMERÇ, ARTESANIA I MODA DE CATALUNYA	764,600	2.13%
BANCO POPULAR ESPAÑOL, S.A.	296,600	0.83%
INSTITUT CATALA DE LES EMPRESES CULTURALS	295,600	0.83%
CONSELL GENERAL DE CAMBRES DE CATALUNYA	204,600	0.57%
BANCO MARE NOSTRUM, S.A.	148,200	0.41%
CAIXA SABADELL TINELIA, S.L.	120,000	0.33%
DEUTSCHE BANK, S.A.	120,000	0.33%
CONFEDERACIO DE COOPERATIVES DE CATALUNYA	63,800	0.18%
CAJA RURAL DE ARAGÓN, SOCIEDAD COOPERATIVA DE CRÉDITO	24,000	0.07%
CAIXA DE CRÉDIT DELS ENGINYERS, S.COOP. DE CRÉDIT	24,000	0.07%
CAJAMAR CAJA RURAL, SOCIEDAD COOPERATIVA DE CRÉDITO	24,000	0.07%
BANKINTER, S.A.	24,000	0.07%
FUNDACIO ESPECIAL PINNAE	24,000	0.07%
FOMENT DEL TREBALL	9,000	0.03%
PIMEC PETITA I MITJANA EMPRESA DE CATALUNYA	9,000	0.03%
ASSOCIACIO CATALANA DE MUNICIPIS I COMARQUES	4,800	0.01%
FEDERACIO DE SOCIETATS LABORALS DE CATALUNYA	4,800	0.01%
CAMBRA DE COMERÇ DE TARREGA	200	0.00%
Patron members	**19,305,600**	**53.88%**

(*) Percentage ownership vis-à-vis total capital.

b) Reserves and profit and loss

Movement in reserves during 2017 and 2016 is as follows:

Legal reserve	Euros 31/12/2017	Euros 31/12/2016
Opening balance	124,911	46,682
Profit for the year	82,487	78,229
Closing balance	**207,398**	**124,911**

The legal framework governing mutual guarantee societies makes the following provisions:

- *Limits on distribution of profit*

  Only profits actually earned or express freely distributable cash reserves may be distributed to members, provided that the actual value of assets net of callable liabilities does not fall below capital.

  The distribution of profit, if any, must be carried out within the limits stipulated in Law 1/1994 of 11 March 1994, specifically the minimum solvency requirements established therein (article 32 of the Company's articles of association).

- *Legal reserve*

  The Company will appropriate at least 50% of post-tax profit each year to a legal reserve until it reaches the equivalent of three times its minimum capital. This reserve may only be used to offset losses in the income statement and it must be replenished whenever it drops below the level indicated (article 33 of the Company's articles of association).

- *Distribution of profit*

  Once the appropriation mentioned in the previous paragraph has been made, profits may be distributed among the members in proportion to their paid-in capital.

  To the extent permitted by existing surpluses and freely distributable reserves, profits equivalent to, at most, the legal interest rate plus two percentage points may be distributed among the members. However, in order to strengthen the Company's solvency, profits may not be distributed among the members until the sum of the legal reserve and freely distributable reserves is equal to twice the minimum capital.

  Surplus profits from previous transactions must be appropriated to freely distributable reserves (article 34 of the Company's articles of association).

c) Technical provisions, net

In 2017 and 2016, movement in this balance sheet item is as follows (in Euros) (see note 4.f):

	Technical provisions				
	Collective coverage of all transactions		Contributions from third parties		Net
	Normal	Applied	Normal	Applied	
Balance at 31 December 2015	**8,992,792**	**(4,392,675)**	**26,602,078**	**(10,324,862)**	**20,877,333**
Contributions from third parties (Note 8)	-	-	6,000	-	6,000
Contributions charged to the income statement (Note 18.d)	4,630,559	-	-	-	4,630,559
Write-offs (Notes 8 and 11)	(1,711,580)	1,711,580	-	-	-
Technical provisions used (Note 18.d)	-	(4,391,641)	-	-	(4,391,641)
Impairment of doubtful receivables from members (Note 8)	-	(2,871,522)	-	-	(2,871,522)
Provision for doubtful guarantees (Note 8)	-	(1,309,463)	-	-	(1,309,463)
Provision for impairment of foreclosed assets (Note 11)	-	(210,656)	-	-	(210,656)
Released technical provisions	-	1,711,310	-	-	1,711,310
Impairment of doubtful receivables from members (Note 8)	-	157,585	-	-	157,585
Provision for doubtful guarantees (Note 8)	-	1,541,504	-	-	1,541,504
Provision for impairment of foreclosed assets (Note 11)	-	12,221	-	-	12,221
Balance at 31 December 2016	**11,911,771**	**(5,361,427)**	**26,608,078**	**(10,324,862)**	**22,833,562**
Contributions from third parties (Note 8)	-	-	12,000	-	12,000
Contributions charged to the income statement (Note 18.d)	4,380,841	-	-	-	4,380,841
Write-offs (Notes 8 and 11)	(1,873,995)	1,873,995	-	-	-
Technical provisions used (Note 18.d)	-	(3,120,612)	-	-	(3,120,612)
Impairment of doubtful receivables from members (Note 8)	-	(2,294,700)	-	-	(2,294,700)
Provision for doubtful guarantees (Note 8)	-	(822,117)	-	-	(822,117)
Provision for impairment of foreclosed assets (Note 11)	-	(3,795)	-	-	(3,795)
Released technical provisions	-	1,070,083	-	-	1,070,083
Impairment of doubtful receivables from members (Note 8)	-	151,249	-	-	151,249
Provision for doubtful guarantees (Note 8)	-	763,712	-	-	763,712
Provision for impairment of foreclosed assets (Note 11)	-	155,123	-	-	155,123
Balance at 31 December 2017	**14,418,617**	**(5,537,958)**	**26,620,078**	**(10,324,862)**	**25,175,875**

Technical provisions applied have been allocated to the following provisions for balance sheet items at 31 December 2017 and 2016:

	Euros	
	31/12/2017	31/12/2016
Assets acquired in payment of debts (Note 11)	398.171	688.285
Impairment of doubtful receivables from members (Note 8)	8.836.415	8.429.588
Impairment of sundry receivables (Note 8)	10.327	8.912
Provision for doubtful financial and technical guarantees (Note 8)	6.617.908	6.559.502
Total	**15.862.820**	**15.686.288**

The breakdown of technical provisions, net at 31 December 2017 and 2016 is as follows:

	Euros	
	31/12/2017	31/12/2016
Technical provisions. Coverage of all transactions	8,880,659	6,550,346
Technical provisions. Contributions from third parties	16,295,216	16,283,216
Total	**25,175,875**	**22,833,562**

At 31 December 2017 and 2016, the minimum level of technical provisions required for collective coverage of credit risk of all transactions amounts to Euros 1,989,668 and Euros 1,849,614, respectively (see note 4(f)).

d) Information on the nature and level of risk of financial instruments

The main financial risks affecting the Company are as follows:

a) Credit risk:

The Company's exposure to credit risk is not significantly concentrated.

The Company has established risk acceptance procedures based on a detailed analysis of each transaction. Transactions are approved by each authorised body/committee, based on the characteristics of the transactions.

The Company has established limits for risks arising from third parties.

Furthermore, the Company has a monitoring committee which is responsible for oversight and control of the activities carried out by the monitoring and recovery departments.

In general the Company holds its cash and cash equivalents in accordance with the cash management procedures manual approved by the board of directors.

b) Liquidity risk:

In order to ensure liquidity and meet all payment commitments derived from its activity, the Company has access to the cash presented in its balance sheet and the investments shown in note 9.

The Company applies a prudent policy to cover its liquidity risks based on having sufficient cash. Of its investments, 50% have a residual maturity of up to 12 months.

c) Market risk:

Both the cash balances and the financial debt of the Company are exposed to interest rate risk, which could have an adverse impact on its financial results and cash flows. Consequently, it is Company policy to invest primarily in short-term fixed income investments, deposits and commercial paper.

11. Non-current Assets Held for Sale

At 31 December 2017 and 2016, this item comprises property and equipment acquired in payment of debts. The Company has the positive intention to sell all the assets recognised in this line item.

Movement during 2017 and 2016 in this account is as follows:

	Euros								
	Balance at 31/12/2015	Additions or charges	Reversals	Sales and write-offs	Balance at 31/12/2016	Additions or charges	Reversals	Sales and write-offs	Balance at 31/12/2017
Cost:									
Foreclosed assets	**3,364,390**	**44,591**	**-**	**(1,142,209)**	**2,266,772**	**121,059**	**-**	**(809,475)**	**1,578,357**
Buildings acquired in payment of debts	3,364,390	44,591	-	(1,142,209)	2,266,772	121,059	-	(809,475)	1,578,357
Other assets acquired in payment of debts	-	-	-	-	-	-	-	-	-
Other	**50,329**	**5,500**	**-**	**-**	**55,829**	**47,443**	-	-	**103,272**
	3,414,719	**50,091**	**-**	**(1,142,209)**	**2,322,601**	**121,059**	**-**	**(809,475)**	**1,681,629**
Provision:									
Assets acquired in payment of debts (Notes 8 and 10.c)	**(873,077)**	**(210,655)**	**12,221**	**383,225**	**(688,286)**	**(3,795)**	**155,123**	**138,786**	**(398,172)**
Buildings acquired in payment of debts	(873,077)	(210,655)	12,221	383,225	(688,286)	(3,795)	155,123	138,786	(398,172)
Other assets acquired in payment of debts	-	-	-	-	-	-	-	-	-
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	(873,077)	**(210,655)**	**12,221**	**383,225**	**(688,286)**	**(3,795)**	**155,123**	**138,786**	**(398,172)**
Total	**2,541,642**	**(160,564)**	**12,221**	**(758,983)**	**1,634,316**	**117,265**	**155,123**	**(670,688)**	**1,283,458**

In 2017 buildings acquired in payment of debts, which had been recognised with a cost of Euros 809,475 (Euros 1,142,209 in 2016), were sold. The related provisions totalled Euros 492,835 (Euros 523,434 in 2016), of which Euros 293,908 (Euros 395,447 in 2016) had been made by the Company and Euros 198,927 (Euros 127,987 in 2016) by CERSA. The total selling price of these assets was Euros 490,000 (Euros 670,000 in 2016). In 2017 the sale of foreclosed assets generated a gain of Euros 1,904, which has been recognised under "Impairment and gains/(losses) on disposal of fixed assets" in the accompanying income statement (Euros 20,643 in 2016).

Movements in the provision for assets acquired in payment of debts and the gains and losses on the disposal thereof are recognised under "Impairment and gains/(losses) on non-current assets held for sale (net)" in the income statement.

12. Trade and Other Payables

Details of this item at 31 December 2017 and 2016 are as follows:

	Euros	
	31/12/2017	31/12/2016
Invoices pending receipt	197,353	279,900
Trade payables	75,040	51,790
Remuneration payable	183,928	163,512
Other payables to members	171,114	124,303
Other	116,349	118,048
Public entities (Note 15)	70,480	65,868
Total	**814,264**	**803,421**

13. Payables

Details at 31 December 2017 and 2016 are as follows:

	Euros	
	31/12/2017	31/12/2016
Security and other deposits received	1,569,239	1,676,072
Counter-guarantors	42,010	29,364
Other payables	1,300,847	2,228,380
Total	**2,912,096**	**3,933,816**

At 31 December 2017, “Security and other deposits received” essentially reflect the balance of Euros 369,400 (Euros 430,600 in 2016) available on the Euros 500,000 contribution received from the Generalitat de Catalunya in 2014 to finance projects of small and medium-sized enterprises through the SMEs and self-employed professionals facility in the agricultural, livestock, fishing, forestry and agri-food sector. This item also includes the balance of Euros 1,099,600 (Euros 1,133,600 in 2016) available on the Euros 1,200,000 contribution received from the “Servei Públic d’Ocupació de Catalunya” (Catalan employment service) in 2016, to set up a loan facility for active employment policies.

In 2017 and 2016, “Counter-guarantors” include amounts payable to CERSA due to its participation in the recovery of bad debts written off.

“Other payables” reflect the amount of convertible debt issued by the Company and entirely subscribed by Instruments Financers per a Empreses Innovadores, S.L. through an agreement signed by the parties on 27 December 2010. In 2015, the Company stepped out of this agreement and began making the pertinent reimbursements in the amount of converted debt not assigned to transactions. Total convertible debt reimbursed in 2017 amounts to Euros 1,434,884 (Euros 2,183,229 in 2016).

The purpose of the agreement was to promote Avalis' granting of guarantees to facilitate the financing of production assets (and any other assets envisaged) of small and medium-sized enterprises, including microenterprises and self-employed professionals.

For each guarantee arranged through this facility, 2.5% of the amount of the secured risk was converted into capital.

The cumulative amount of debt converted into capital through these transactions in 2017 is Euros 1,566,800 (Euros 2,172,600 in 2016).

Convertible debt accrues a variable rate of interest indexed to 1-year Euribor plus a spread of 1%.

Interest settlements are per calendar year in arrears, on 31 December each year. Settlements for 2017 and 2016 amount to Euros 17,245 and Euros 30,193, respectively, and have been recognised under “Finance costs” in the accompanying income statement.

14. Liabilities associated with Financial and Technical Guarantees

This item reflects the fees and commissions received plus the present value of any fees and commissions receivable as consideration for granting financial guarantees, less the portion taken to the income statement.

Movement in 2017 and 2016 is as follows:

	Euros
Balance at 31 December 2016	**13,416,349**
Plus- Additions for the year	6,477,019
Less-	
Charge for the year	(5,851,664)
Transfer to provisions for surety bonds and guarantees	(774,889)
Balance at 31 December 2017	**13,266,815**

	Euros
Balance at 31 December 2015	**14,149,661**
Plus- Additions for the year	6,318,079
Less-	
Charge for the year	(5,858,304)
Transfer to provisions for surety bonds and guarantees	(1,193,088)
Balance at 31 December 2016	**13,416,349**

15. Taxation

Details of "Public entities" in the accompanying balance sheet at 31 December 2017 and 2016 are as follows:

	Euros	
2017	Asset	Liabiliity
Taxation authorities, withholdings receivable	-	-
Taxation authorities, income tax receivable	36,425	-
Tax credit	290,774	-
Taxation authorities, withholdings on lease income receivable	-	-
Social Security receivable	-	-
Taxation authorities, income tax payable	-	-
VAT	-	-
Social Security contributions	-	39,494
Withholdings and payments on account	-	30,986
Taxation authorities, other taxes	-	-
Balance at 31 December 2017	**327,199**	**70,480**

	Euros	
2016	Asset	Liabiliity
Taxation authorities, withholdings receivable	-	-
Taxation authorities, income tax receivable	129,845	-
Tax credit	344,572	-
Taxation authorities, withholdings on lease income receivable	-	-
Social Security receivable	-	-
Taxation authorities, income tax payable	-	-
VAT	-	84
Social Security contributions	-	34,403
Withholdings and payments on account	-	31,381
Taxation authorities, other taxes	-	-
Balance at 31 December 2016	**474,417**	**65,868**

Due to the different treatment of certain transactions permitted by fiscal legislation, the accounting profit/loss may differ from taxable income/the tax loss.

A reconciliation of accounting profit/loss with the taxable income/tax loss for 2017 and 2016 is as follows:

	2017
- Profit/(loss) before income tax	**-**
- Permanent differences	**103**
Non-deductible expenses	103
- Temporary differences	**456,941**
Provision for exposures under special monitoring	(75,149)
Surplus technical provision	531,739
Other adjustments	351
Gross tax base	**457,044**

	Euros
	2016
- Profit/(loss) before income tax	**-**
- Permanent differences	**50**
Non-deductible expenses	50
- Temporary differences	**403,201**
Provision for exposures under special monitoring	(142,711)
Surplus technical provision	443,941
Other adjustments	101,971
Gross tax base	**403,251**

Permanent differences arise from the following:

- Non-deductible expenses, essentially fines and penalties.

Temporary differences arise from the following:

- Provisioning expense during the year in respect of substandard risk and exposures under special monitoring.

- Provisions recognised by the Company during the year.

A reconciliation of profit/loss before tax with the income tax expense/income for 2017 and 2016 is as follows:

	2017
- Profit/(loss) before income tax	**-**
- Permanent differences	**103**
Non-deductible expenses	103
- Temporary differences	**456,941**
Provision for exposures under special monitoring	(75,149)
Surplus technical provision	531,739
Other adjustments	351
Gross tax base	**457,044**
Tax loss	**(457,044)**
Taxable income/(tax loss)	-
Gross income tax expense/income	**(23,174)**
Prior years' tax losses not recognised	**-**
Prior years' income tax expense/income	**(30,624)**
Income tax expense/income for the year	**(53,797)**

	Euros
	2016
- Profit/(loss) before income tax	**-**
- Permanent differences	**50**
Non-deductible expenses	50
- Temporary differences	**403,201**
Provision for exposures under special monitoring	(142,711)
Surplus technical provision	443,941
Other adjustments	101,971
Gross tax base	**403,251**
Tax loss	**(403,251)**
Taxable income/(tax loss)	-
Gross income tax expense/income	**(13)**
Prior years' tax losses not recognised	**100,813**
Prior years' income tax expense/income	**64,173**
Income tax expense/income for the year	**164,973**

In accordance with Spanish tax legislation, losses declared may be carried forward to be offset against profits of subsequent accounting periods, the amount being distributed as considered appropriate. Losses are offset when the tax returns are filed, without prejudice to the taxation authorities' power of inspection.

In 2013, the income tax for 2009, 2010 and 2011 was rectified and that recognised in 2012 was amended. This entailed recognising a Euros 617,434 decrease in the income tax expense and a Euros 88,520 tax credit, due to capitalisation of available tax loss carryforwards and unused deductions. In 2014 a request for rectification of income tax for 2009, 2010, 2011, 2012 and 2013 was submitted, and at the end of 2014 a favourable resolution for 2009 was received from the taxation authorities. This resolution entailed the recognition of tax loss carryforwards amounting to Euros 2,167,874, which the Company had not recognised as it considered they did not qualify for such recognition. In 2016 a favourable resolution was received from the taxation authorities in respect of 2010, 2011, 2012 and 2013. This resolution entailed the recognition of tax loss carryforwards amounting to Euros 5,507,702, which the Company had not recognised as it considered they did not qualify for such recognition. The resolution also acknowledged an income tax refund of Euros 64,173 corresponding to 2012, which has been recognised under "Income tax" in the attached income statement for 2016.

In 2016, the offset of previously unrecognised tax loss carryforwards reduced the income tax expense by Euros 100,813.

Details of tax loss carryforwards available for offset at 31 December 2017, in Euros, are as follows:

Origin	Tax loss	Offset in prior years	Offset in the year	Available
2009	(2,167,874)	907,378	457,044	(803,452)
2010	(2,704,306)	-	-	(2,704,306)
2011	(187,219)	-	-	(187,219)
2012	(469,175)	-	-	(469,175)
2013	(2,147,001)	-	-	(2,147,001)

Details of available deductions at 31 December 2017 are as follows:

Item	Year	Amount
Tax credits to incentivise certain activities (Chapter. IV, Title. VI, Law 43/95 and CIT Law)	2003	1,179
	2004	108
	2005	210
	2006	1,241
	2007	4,931
	2008	2,793
	2009	745
	2010	720
Total deductions		11,928

Deductions of Euros 11,928 generated up to 2010 have been capitalised in the balance sheet at the 2017 and 2016 reporting dates.

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected by the taxation authorities or before the inspection period of four years has elapsed.

At 31 December 2017, the Company has open to inspection income tax for 2009 and subsequent years, and all other taxes for 2014 and subsequent years.

16. Outstanding Risk through Financial and Technical Guarantees Extended

Details of financial and technical guarantees extended by the Company and in force at 31 December 2017 and 2016, and movement therein, are as follows:

	Euros						
	Balance at 31/12/2015	Arranged	Cancellations and repayment	Balance at 31/12/2016	Arranged	Cancellations and repayment	Balance at 31/12/2017
Financial	323,915,873	106,957,666	(101,650,328)	329,223,211	114,424,626	(105,617,657)	338,030,179
Other guarantees	48,720,592	22,822,490	(19,896,181)	51,646,901	19,285,545	(18,929,916)	52,002,530
	372,636,465	**129,780,156**	**(121,546,509)**	**380,870,112**	**133,710,171**	**(124,547,573)**	**390,032,709**

Details of financial and technical guarantees extended by the Company classified by beneficiary, and movement therein in 2017 and 2016 are as follows:

	Euros						
	Balance at 31/12/2015	Arranged	Cancellations and repayment	Balance at 31/12/2016	Arranged	Cancellations and repayment	Balance at 31/12/2017
Credit institutions	270,930,396	101,384,156	(95,413,310)	276,901,242	109,533,120	(97,727,697)	288,706,664
Public entities	90,545,745	21,700,537	(20,197,440)	92,048,842	16,815,521	(21,393,035)	87,471,328
Other	11,160,324	6,695,463	(5,935,759)	11,920,028	7,361,530	(5,426,841)	13,854,717
	372,636,465	**129,780,156**	**(121,546,509)**	**380,870,112**	**133,710,171**	**(124,547,573)**	**390,032,709**

The portion of financial and technical guarantees in force at 31 December 2017 and 2016 considered doubtful is Euros 31,803,261 and Euros 31,426,255, respectively, of which Euros 29,941,685 (Euros 28,400,054 in 2016) are financial guarantees and the remainder are of a technical or economic nature. Of these amounts, under the agreements currently in place (see note 8), an amount of Euros 15,599,204 (Euros 15,072,710 in 2016) has been counter-guaranteed, of which Euros 15,383,201 (Euros 14,878,313 in 2016) are financial guarantees and Euros 216,003 (Euros 194,397 in 2016) are technical or economic guarantees. The provision recognised in respect of the financial and technical guarantees in force amounts to Euros 6,617,908 (Euros 6,559,902 in 2016) (see notes 4.e and 8).

Outstanding Risk are reflected in the balance of outstanding risk at 31 December 2017 and 2016, after deducting maturities already serviced by the borrowers or, where applicable, by the Company as guarantor. From the date the Company commenced its activity until 31 December 2017, there have been net write-offs totalling Euros 20,801,736 (Euros 45,251,027, not considering effective cover provided by CERSA). At 31 December 2016, net write-offs amounted to Euros 18,927,741 (Euros 42,314,304, not considering effective cover provided by CERSA). The total amount of financial and technical guarantees arranged since the Company's incorporation, whether expired or in force, at 31 December 2017 is Euros 1,410,506,696 (Euros 1,272,307,474 in 2016).

The Company's board of directors has stipulated a ceiling for outstanding risk vis-à-vis a single member at any given date. At 31 December 2017 and 2016 no member exceeded the specified maximum amount.

The Company has counter-guaranteed a total of Euros 194,948,415 of outstanding risk at 31 December 2017 (Euros 189,698,485 in 2016). Of this amount, Euros 175,126,780 (Euros 170,393,346 in 2016) reflect financial and technical guarantees classed as standard risk, Euros 15,599,204 (Euros 15,072,710 in 2016) are doubtful financial and technical guarantees and Euros 4,222,431 (Euros 4,232,429 in 2016) are exposures under special monitoring, pursuant to the agreement entered into with CERSA (see note 8).

17. Information on the Board of Directors

a) Remuneration and other payments to the board of directors

In 2017 and 2016, no amounts were accrued in respect of allowances for attendance at meetings of the executive committee or the board of directors. At 31 December 2017 and 2016 the Company has not extended any advances or loans to current or former members of the board of directors. At 31 December 2017 and 2016, financial and technical guarantees have been extended under market conditions to a related company of one of the Company's directors, in an amount of Euros 1,157,143 and Euros 1,328,572, respectively. Salaries, wages and variable remuneration paid to the directors of the Company discharging executive duties and to the management team amount to Euros 314,691 and Euros 297,594 in 2017 and 2016, respectively, and have been recognised under “Personnel expenses – Salaries, wages and similar” in the income statement for the year.

The Company has taken out public liability insurance for its directors and management. The premium for 2017 is Euros 4,989 (Euros 4,989 in 2016) and has been recognised under “Other operating expenses” in the accompanying income statement.

At 31 December 2017 the Company's board of directors has 15 members, all but two of whom are male, thus two female members (15 members in 2016, all but two of whom were male, thus two female members).

b) Details of conflicts of interest affecting the directors, pursuant to article 229 of Royal Legislative Decree 1/2010 of 2 July 2010, which approves the Revised Spanish Companies Act

At the 2017 reporting date, neither the members of the board of directors of Avalis de Catalunya S.G.R. nor their related parties, as defined by the Spanish Companies Act, have reported to the other members of the board any conflicts of interest, direct or otherwise, with the Company.

18. Other Information

a) Revenues

The distribution of revenues from guarantees, by geographical market, in respect of the Company's ordinary activity in 2017 and 2016 is as follows:

Geographical market	Euros	
	31/12/2017	31/12/2016
Barcelona	5,070,203	5,033,518
Tarragona	337,141	343,321
Girona	392,774	406,371
Lleida	463,465	467,719
Other	114,491	108,952
	6,378,074	**6,359,881**

The distribution of these revenues by type of transaction is as follows:

Type of transaction	Percentage	
	31/12/2017	31/12/2016
Financial guarantees	87%	87%
Other guarantees	13%	13%
	100%	**100%**

b) Personnel expenses

Details of this item in 2017 and 2016 are as follows:

	Euros	
	31/12/2017	31/12/2016
Salaries, wages and similar	1,289,999	1,320,735
Salaries and wages	1,131,763	1,084,174
Termination benefits	453	93,985
Other personnel expenses	157,783	142,576
Employee benefits expense:	401,752	366,563
Social Security payable by the Company	339,935	317,236
Other employee benefits expense	61,817	49,327
	1,691,752	**1,687,298**

The distribution, by category, of the average employee headcount in 2017 and 2016 is as follows:

2017	No. employees	Gender	
		Male	Female
Directors	1	1	-
Management	4	2	2
Graduates	18	10	8
Administrative staff	9	3	6
	33	**16**	**17**

2016	No. employees	Gender	
		Male	Female
Directors	1	1	-
Management	3	1	2
Graduates	19	11	8
Administrative staff	9	3	6
	32	**16**	**16**

The distribution of serving employees by category at the 2017 and 2016 reporting dates is as follows:

2017	No. employees	Gender	
		Male	Female
Directors	1	1	-
Management	4	2	2
Graduates	18	10	8
Administrative staff	9	3	6
	33	**16**	**17**

2016	No. employees	Gender	
		Male	Female
Directors	1	1	-
Management	3	1	2
Graduates	19	11	8
Administrative staff	9	3	6
	32	**16**	**16**

The Company had no disabled employees at 31 December 2017 and 2016.

c) Other operating expenses

Details of this item in 2017 and 2016 are as follows:

	Euros	
	31/12/2017	31/12/2016
Leases	279,631	271,271
External advisors	286,217	344,189
Repairs and maintenance	26,481	20,531
Advertising	129,140	47,249
Utilities	15,327	16,192
Insurance	23,064	24,785
Other services	112,564	128,142
Taxes	34,587	34,150
Bank fees, commissions and services (note 8)	35,146	26,310
Total	**942,157**	**912,819**

In 2017 and 2016 fees, not considering VAT, for audit and other services rendered either by the auditor (KPMG Auditores, S.L.), by a company in the same group or by a related company of the auditor are as follows:

2017

Euros	Services provided by the auditor of the accounts and by related parties
Audit services	29,580
Other assurance services	-
Total audit and related services	**29,580**
Tax advisory services	-
Other services	-
Total tax services	-
Total professional services	**29,580**

2016

Euros	Services provided by the auditor of the accounts and their related parties
Audit services	29,000
Other assurance services	-
Total audit and related services	**29,000**
Tax advisory services	-
Other services	-
Total tax services	-
Total professional services	**29,000**

The amounts detailed in the above tables include the total fees for 2017 and 2016, irrespective of the date of invoice.

d) Change in trade provisions and change in technical provisions

	Euros	
	31/12/2017	31/12/2016
Provisions for financial and technical guarantees (net) (Note 8)	(58,405)	232,041
Impairment of doubtful receviables from members (Note 8)	(2,143,451)	(2,713,937)
Impairment and gains/(losses) on non-current assets held for sale (Note 11)	153,232	(198,434)
Technical provisions. Collective coverage of all transactions	(2,330,313)	(1,950,229)
Technical provisions (Note 10.c)	*(4,380,841)*	*(4,630,559)*
Released technical provisions (Note 10.c)	*(1,070,083)*	*(1,711,310)*
Technical provisions used (Note 10.c)	*3,120,612*	*4,391,641*
Technical provisions. Colective coverage	-	-
Surplus general provision	-	-
Technical provisions. Contributions from third parties used	-	-
Technical provisions used (Note 10.c)	-	-
Technical provisions used. General allowance	-	-
Released technical provisions (Note 10.c)	-	-

e) Late payments to suppliers

The information required under additional provision three of Law 15/2010 of 5 July 2010 is disclosed below.

	2017	**2016**
	Days	**Days**
Average supplier payment period	-10.08	-15.20
Transactions paid ratio	-10.72	-15.07
Transactions payable ratio	**0.18**	**-18.19**
	Amount	**Amount**
Total payments made	1,127,257	1,147,579
Total payments outstanding	70,886	51,931

The payments to suppliers reflected in the above table are trade payables as they relate to goods and services, and therefore include the various items recognised in “Trade and other payables” on the balance sheet.

f) Finance income

Details of finance income, in Euros, are as follows:

	31/12/2017	31/12/2016
Income from discountings of fees and commissions	419.137	444.872
Interest on cash and investments (Note 9)	445.385	624.728
Income from late payments and recoveries	82.530	109.598
Total finance income	**947.053**	**1.179.198**

g) Related party balances and transactions

Details of balances vis-à-vis related parties at 31 December 2017 and 2016 and of transactions conducted therewith in the years then ended, in Euros, are as follows:

2017

	Asset balances	Liability balances	Expenses	Income
Debt securities (Institut Català de Finances)	9,975,794	-	-	76,525
Debt securities (Generalitat de Catalunya)	-	-	-	-
Convertible debt (Instruments Financers per a Empreses Innovadores)	-	1,300,847	(17,245)	-
Office rental (Institut Català de Finances)	-	-	(254,408)	-
Security deposits received (Generalitat de Catalunya)	-	1,518,000	-	-
Revenue from services rendered (Institut Català de Finances)	-	-	-	3,600
Total	**9,975,794**	**2,818,847**	**(271,653)**	**80,125**

2016

	Asset balances	Liability balances	Expenses	Income
Debt securities (Institut Català de Finances)	10,460,207	-	-	102,836
Debt securities (Generalitat de Catalunya)	-	-	(89,356)	123,414
Convertible debt (Instruments Financers per a Empreses Innovadores)	-	2,228,380	(30,193)	-
Office rental (Institut Català de Finances)	-	-	(250,094)	-
Security deposits received (Generalitat de Catalunya)	-	1,621,580	-	-
Revenue from services rendered (Institut Català de Finances)	-	-	-	3,600
Total	**10,460,207**	**3,849,960**	**(369,643)**	**229,849**

19. Events after the Reporting Period

From the 2017 reporting date to the date of authorisation for issue of these annual accounts, no significant events have come to light with respect to the annual accounts that have not been disclosed in the notes thereto.

Directors' Report

for the year ended

31 December 2017

Activity

In 2017, the Company's activity resulted in the arrangement of 1,547 financial and technical guarantees for an amount of Euros 138,199,222, denoting a rise of 4% in the number of financial and technical guarantees and 4.9% in the volume of transactions arranged compared to 2016.

At 31 December 2017, the outstanding risk amounts to Euros 390,032,709, up 2.4% on the prior year, for a total of 5,473 financial and technical guarantees. The average amount of financial guarantees arranged with financial institutions in 2017 was Euros 118,159, while other guarantees totalled Euros 39,925. In 2017, 94 newly created companies received guarantees, compared with 81 in the prior year. Guarantees granted in 2017 contributed to preserving, or created, 27,990 jobs, versus 27,630 in the previous year.

In 2017, in addition to its commercial activity based primarily on promotion and diffusion amongst its main influencers (financial institutions, chambers, associations, departments of the Generalitat, etc.), which has been ongoing since its incorporation, the Company strengthened its direct commercial activity through its team of sales agents.

Composition and nature of risk

Various classifications of outstanding risk at 31 December 2017, in Euros, are as follows.

By guaranteed sector:

	Number	Amount	%
Primary sector	178	11,211,014	3%
Industrial sector	1,120	100,092,269	26%
Construction sector	428	22,940,520	6%
Tertiary sector	3,747	255,788,905	66%
Total	**5,473**	**390,032,708**	**100%**

By person or entity vis-à-vis which the financial and technical guarantees was sought:

	Number	Amount	%
Banks	3,306	284,582,134	73%
Other financial institutions	44	2,974,464	1%
Suppliers	7	287,900	0%
Public entities	1,986	88,139,021	23%
Other	130	14,049,189	4%
Total	**5,473**	**390,032,708**	**100%**

By type of guarantees received:

	Number	Amount	%
Collateral	997	101,850,600	26%
Mortgage	247	23,325,706	6%
Other collateral	750	78,524,894	20%
Personal	2,797	182,975,448	47%
Unsecured	1,679	105,206,661	27%
Total	**5,473**	**390,032,708**	**100%**

Default rates:

	Total	Net of counter-guarantee
Risk in force	390,032,708	210,997,497
Guarantees extended to members in arrears ("SAM")	22,512,756	10,747,614
Doubtful exposures	31,803,261	16,289,648
Members written-off	16,151,060	8,340,475
Ratio: SAM/risk in force + SAM	5.46%	4.85%
Ratio: Doubtful exposures/risk in force	8.15%	7.72%
Ratio: Write-offs/risk in force	4.14%	3.95%

Capital trends

In 2017, changes in the capital of the patron members were mainly due to the reimbursement of capital to Instruments Financers per a Empreses Innovadores, S.L. (IFEM) on cancellation of the convertible debt facility agreement signed with IFEM in 2010, and the reimbursement of part of the capital assigned to past-due transactions under the capital facility agreement entered into with Instruments Financers per a Empreses Innovadores (IFEM). The net decrease amounted to Euros 813,400 bringing the capital of patron members to Euros 18,492,200 represented by 92,461 equity investments of Euros 200 par value each. In 2017, two new patron members joined the capital structure, namely ABANCA Corporación Bancaria, S.A. and Caja de Arquitectos, S. Coop. de Crédito, which each contributed Euros 24,000 of capital. There are 28 patron members in total. At 31 December 2017, 53.88% of capital was contributed by the patron members, compared with 50.83% at 31 December 2016. Trends in the capital of participating members are as follows:

	Equity investments	Capital
31 December 2016	**82,623**	**16,524,600**
Admission of members	9,286	1,857,200
Capital increases, members	6,263	1,252,600
Member departures	(4,637)	(927,400)
Capital reductions, members	(4,097)	(819,400)
31 December 2017	**89,438**	**17,887,600**

Compliance with ratios

At 31 December 2017, the Company complied with all of the minimum ratios stipulated in the legislation in force regarding own funds, obligatory investment thereof, the solvency ratio and the amount to be covered by the technical provision. Thus, at 31 December 2017:

- The surplus technical provision amounted to Euros 23,186,306.
- Surplus own funds totalled Euros 37,040,830.

- No exposure vis-à-vis any economic group exceeded 20% of eligible own funds.

- Investments in property and equipment and equity investments represent 0.82% of eligible own funds, and must not exceed 25% of such eligible own funds.

- With regard to the obligation to invest in certain assets (75% minimum investment), such investments held by the Company at 31 December 2017 exceed the statutory 75%.

Corporate governance

Avalis oversees the effectiveness of the Company's internal control, internal audit and risk management through its joint Audit and Control Committee. It also supervises the process of drawing up the regulated financial information and ensures the suitability and ongoing assessment of the appointed board members and directors, and executives with similar functions, as well as other persons holding key positions in the Company's day-to-day activity. In terms of changes in the board of directors in 2017, Mr. Alfonso Ruspira Torralba stepped down as the representative of Banco Popular, being replaced by Mr. José Antonio Rego Galante.

Corporate social responsibility

Avalis conducts its activity and renders its services, at all times, on the basis of its corporate values, namely quality, transparency and commitment to society, in both its internal professional relationships and its external relationships with customers and other stakeholders. As such, Avalis voluntarily applies criteria to reduce the environmental, social and good governance impact of the processes that form its activity, thus demonstrating its commitment to an efficient and responsible conduct model.

Other information

The Company has no research and development projects underway, nor did it incur any expenses in this connection in 2017.

The Company did not acquire any own equity investments in 2017, nor does it hold any such investments.

At the date of this directors' report, no events of an economic or financial nature have occurred subsequent to the reporting date that affect the financial statements presented or the Company's position.

Outlook for 2018

For 2018, the volume of transactions arranged is forecast to expand by around 16%, and outstanding risk is expected to increase by 4%. The cost containment policy will remain in place.

Institut Català de Finances Represented by Josep Ramón Sanromà i Celma	Josep Lores i García	Joan Carles Rovira Garcia
Anna Álvarez Santiago	CaixaBank, S.A Represented by Patricia Trillo Fox	Banco Bilbao Vizcaya Argentaria, S.A. Represented by Joan Perona Martinez
Mediación y Diagnósticos, S.A. Represented by Manel López Arranz	Banco de Sabadell, S.A. Represented by Rafael José García Nauffal	Banco Popular Español, S.A. Represented by José Antonio Rego
Francisco Javier Viladegut Blanch	Xavier Cañadó Fernández	Fomento Nacional de Trabajo Represented by Juan Torras Gómez
Consell General de Cambres Represented by Javier Pérez Farguell	PIMEC-SEFES Represented by Pere Cots Juvé	Ramon Talamàs i Jofresa
	Joan Roca Sagarra (Non-executive secretary)	

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

Certification to place on record that this document, composed of 48 sheets of standard paper in the case of the notes and 3 sheets of standard paper in the case of the directors' report, printed on one side only, each signed by the secretary to the board of directors of Avalis de Catalunya SGR (with the approval of the chairman), contains the annual accounts for the year ended 31 December 2017.

The members of the board of directors of Avalis de Catalunya, SGR hereby sign below to indicate their approval.

Date of authorisation for issue of the annual accounts: 19 March 2018